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AUSTIN H. CARR, Editor,
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(The opinions expressed in articles in The Canadian Chartered Accountant are the opinions of the writers of the articles and are not necessarily endorsed by the Association).

Editorial Comment

Anniversary Celebrations American Institute

We offer congratulations to the American Institute of Accountants on the success of its fiftieth anniversary celebrations held in New York 18th to 22nd October, an account of which we publish this month. To a marked degree the meeting approached an international gathering of accountants, for a large number of outstanding members of the profession were present from Great Britain, Canada, Holland and Mexico. The meeting gave an unusual opportunity to members of our profession of discussing trends of development in industry and of exchanging opinions on subjects of vital concern to them in the practice of a profession of widening services and growing responsibilities. In the main, the problems of the profession in any one of the countries mentioned do not differ from those in another. This was evident in the discussions at this meeting, and was also noted at the annual meeting of our Dominion Association last August when the paper on the problems of the profession in the United States was read by Mr. E. H. Wagner, the Vice-President of the American Institute of Accountants. We hope to be able to publish in a later issue one or two of the excellent papers read at the American Institute meeting.

*Regional Meeting
in the Maritimes*

The remarkably fine attendance at this meeting of the American Institute and at recent annual meetings of the Dominion Association is evidence of the increasing desire of members of the profession to come together to discuss their problems. Due to the great distances from East to West on this continent, however, and the considerable travelling expenses thus involved, an annual meeting when held at an extreme end of the country can at best draw only a fraction of the members from the other end. This was the case at the meeting of our Dominion Association at Vancouver in August last, and a similar situation will arise next year when our annual meeting is held in Halifax. The consequences of the situation this year were remedied in part by a regional meeting of the Institutes of Nova Scotia, New Brunswick and Prince Edward Island held at Charlottetown on 1st October, an account of which is published this month.

We shall not dwell on the details of this meeting except to refer to a suggestion advanced by the bankers of Charlottetown which is of so much importance that it invites the earnest consideration of the whole profession in Canada.

The suggestion came during the banquet which marked the close of the meeting and to which prominent bankers and other business and professional men of the Island were invited. Most banquets end after an exchange of pleasantries between the host and the guests; this one was different. Here was an occasion on which the members of an important profession had gathered to discuss the practical matters of their calling; the bankers possibly above all others in the business community are conversant with the functions of the chartered accountant and with the service he can render. Accordingly they grasped the opportunity to appeal to the profession to make more widely known to the public the services performed by its members. While fully recognizing the fact that the ethics of the profession would not permit of personal advertising, the bankers pointed out that the profession as a whole was doing itself and the business public a positive disservice by remaining silent on a matter so vital to the public welfare. The request came as a complete surprise and was perhaps the more appreciated because of its spontaneous nature.

*Making Known
Our Functions*

Here then is a matter that has been placed squarely before the profession not only in Prince Edward Island but also in every province of Canada. The code of professional ethics of the chartered accountants does not permit of advertising on the part of any individual member or partnership, and experience has proved the wisdom of that rule. Yet as any banker will point out, there have been individual traders, and firms large and small who might have saved themselves from approaching ruin had they known that members of our profession were there ready, willing and qualified to examine the state of their business and to explain to them exactly the significance of the figures revealed by their books of account. In most cases the people who have been overtaken by business disaster arrived there through ignorance or disregard of the service which was at their hand from qualified men.

We are in agreement with the bankers that our profession owes a service to the public to explain in some detail the meaning or the function of the chartered accountant. We do not suggest the means or way of conveying that information as that is a matter for the councils of the provincial Institutes and the Dominion Association to discuss. There is, however, another side to the suggestion of the bankers which we feel requires consideration. While the business community and the investing public should be informed of the services of our profession and would have a right to look to the chartered accountant for skill, judgment and integrity of a high order, it is also important that the public be made aware of the unavoidable limitations of his work and of the responsibility, in turn, of the investing public and the holders of corporate securities, of giving a fair and thorough study of what is submitted in accounting statements and the auditor's report.

*Season of
Thanksgiving*

A week or two ago Canadians observed the occasion of a national Thanksgiving. Within the past two months we have visited the extreme West and the extreme East of the Dominion and perhaps we may be pardoned for making a reference thereto. With the disorder and devastations of war in Europe and Asia and instances of the artfulness of some countries in dealing with others desiring peace

we could not help being impressed by the spirit of contentment that in general fills the hearts of Canadians. We are a people who cherish peace and have demonstrated the sincerity of that desire by the friendly relations which have existed between us and our neighbour for over a century.

Our journey to the Maritimes took us through the mountains, valleys and forests of Quebec, Vermont, New Hampshire and Maine whose gorgeous colouring at this period of the year breathed beauty and peace. Surely the soul of every motorist in beholding such a scene could not but have been filled with happiness, wonder and praise, and with the poet have exclaimed "All the best of endless time seems granted to the fleeting hour."

The people of these two great nations of North America so imbued with the spirit of co-operation can surely make a contribution to the peace of the world. May the national Thanksgiving next year of these countries and of all the other countries of the world working now for peace be for the opportunities that will have been given and taken during the coming year of demonstrating to the disturbers of world harmony and peace the far-reaching advantages of "the wiser ministries of love"!

*The Advances
in Industry*

In his "Wealth of Nations," published in 1776, Adam Smith made the observation that the only trades which it seemed possible for a joint-stock company to carry on successfully, without any exclusive privilege, were "those of which all the operations are capable of being reduced to what is called a routine or to such uniformity of method as admits of little or no variation," and he confined the application of his opinion to four trades, namely, banking; the trade of insurance from fire, and from sea risk and capture in time of war; the trade of making and maintaining a navigable cut or canal; and finally the trade of bringing water for the supply of a great city. Only a glance at industry today makes one realize the extent to which the corporation has come to perform an important function not only in the trades mentioned by this great economist but also in every field of financial and industrial enterprise. When one compares the remarkable developments in industry during even the past fifty years with

those of all the centuries prior to Adam Smith's day, it is not to be wondered at that the changes since his time could not have been even faintly visualized a century and a half ago.

The extension of the use of the corporation is only one of the major developments in commerce since the "Wealth of Nations" was written. Adam Smith was a firm believer in the principle of self-interest which, in his opinion, was the bond that held society together. "Man's self-interest is God's providence," he averred, and held that if government abstained from interfering with free competition, industrial problems would work themselves out and the practical maximum of efficiency would be reached. The principle of *laissez-faire* has had to be subjected to considerable modifications since he enunciated it. The rise of the factory system during the Industrial Revolution in Great Britain, the invention of machinery and the rapid growth of large-scale production, which encouraged the tremendous extensions of corporate enterprise, tended to destroy the personal bond between masters and men who had worked side by side in small industries. Continued expansion in business widened the gulf between the employers and employees, and the domination of the former contributed to an embitterment of relations which greatly influenced the later labour movement.

There came a strong reaction then against *laissez-faire*; the government could not abstain entirely from interference with individual action in commerce and so we have come to accept an array of legislation which tends to increase with nearly every successive session of the legislature—acts for regulating the conditions and hours of employment, the fixing of wages, the municipalization of public utilities, the regulation of companies and the sale of corporate securities, and the taxation of incomes which in the case of individuals with incomes in the higher brackets may almost amount to confiscation.

Study of Industrial Relations

The foregoing references to corporations and freedom of enterprise have lead us to the subject of industrial relations. In spite of the criticisms that have been long levelled against the employer and the capitalist, human sympathy is not lacking in industry, and daily instances in

support of this will come to every reader's mind. There are certain human relations in industry which no amount of legislation can control or adjust, so freedom of action has taken advantage of the opportunity to express itself in another direction—the desire to study the relations of all those engaged in the production and distribution of goods and the rendering of services. Thus the term “industrial relations” concerns itself with the methods by which the proceeds of industrial activities are divided between employers and the different classes of workers, and the settlement of working conditions.

The beginnings of the movement to introduce into the management of our great industries scientific and professional principles may be said to belong to the last quarter century. One of the chief points of this development was the attainment of a highly co-operative employee morale. While many aspects of the move for personnel management may have been introduced as a defense against unionism, the main impulse has been constructive. Employee representation is one of the most interesting aspects of the new personnel movement, and through it a form of group expression is provided to the workers.

The announcement, then, of the recent establishment by Queen's University, Kingston, of an Industrial Relations Section in its School of Commerce and Administration is of interest to members of our profession and to business executives in all parts of Canada. The department has been opened because of an expressed need. During the past two years, with the co-operation of personnel associations in Montreal and Toronto, conferences of industrial relations men, industrial executives, government and labour officials and university men have been held at Kingston. The co-operation and financial support for a five-year programme have been promised by several industrial corporations, and arrangements have been made whereby the work of the department will be entirely unfettered and unbiassed. The object of the Section is not only to equip men entering the business and industrial field with knowledge and sympathetic understanding of current employer-labour problems but also to provide management and labour with a service which will be of value in promoting sound thinking and industrial understanding.

This move on the part of one of our old-established universities is of significance in two respects: it gives expression to a desire on the part of our universities to contribute to a deeper study of the problems of Canadian industry and scientific management; it is a further advance on the precedent taken by this university when it established courses in commerce and administration some twenty years ago—namely, that our Canadian institutions of higher learning instead of confining themselves to a so-called cultural education must take a lead in the study of industrial problems and the movements that influence the future of the nation.

PROBLEMS OF THE PROFESSION IN THE UNITED STATES*

WHEN I was requested to represent the American Institute of Accountants at the annual meeting of the Dominion Association of Chartered Accountants this year I accepted the assignment with a great deal of pleasure, but with some trepidation, realizing that there are those who could more ably represent the Institute.

It was my good fortune to attend one of your conventions held in Toronto some years ago and I have pleasant recollections of the very hospitable reception accorded the members of the Institute on that occasion and of the delightful days spent with you.

It has likewise been our pleasure to have representatives from your association, I think, at every convention of the American Institute since its formation, and you have in this way so graciously evidenced your kindly feeling towards us and the desire for co-operation.

In view of this close friendship between us, may I express the hope that soon there shall be formulated a reciprocal plan for the practice of accounting in Canada and the United States.

In the selection of a subject for my paper it was suggested that you might be interested in some of the problems confronting the profession in the United States, although perhaps many of you may have familiarized yourselves with our major problems. In leading up to these problems, it might not be amiss to relate briefly the history of the American Institute of Accountants.

The first national association of public accountants in the United States was organized in 1887 under the title of the American Association of Public Accountants.

On 28th October 1902 there was organized at the National Capitol the Federation of Societies of Public Accountants in the United States of America. Sponsored by this Federation there was held in St. Louis, during the Universal Exposition, a congress of accountants. The meetings were

*A paper read by Edwin H. Wagner, St. Louis, Missouri, 19th August 1937, at the Annual Meeting of The Dominion Association of Chartered Accountants held in Vancouver, British Columbia. Mr. Wagner is Vice-President of the American Institute of Accountants.

held in the Assembly Hall of the Washington University in the western portion of the Louisiana Purchase Exposition Grounds, the first session being on 26th September 1904. This was the first international convention of accountants ever held and was attended by representatives of the various accountants' societies of Canada, England and Scotland. There were seven representatives from Canada present, among whom was Mr. John Hyde, then president of The Dominion Association of Chartered Accountants, who read a very interesting paper in respect of the position of the public accountants in Canada. And so, after thirty-three years, I am here in Vancouver to attempt to tell you of some of our problems in the United States.

The effect of this congress of accountants was to awaken interest in the profession and to stimulate the activities of accountants throughout the country.

Twelve years after this convention, or to be more exact, in September 1916, the American Association of Public Accountants was superseded by the American Institute of Accountants which was organized under a federal charter, and with the following objectives:

- To promote and maintain high professional and moral standards;

- To safeguard the interests of public accountants;

- To advance the science of accountancy;

- To provide for the examination of candidates for membership; and

- To encourage cordial intercourse among accountants practising in the United States of America.

All members of the former Association were automatically admitted as charter members of the Institute.

The fiftieth anniversary of the formation of the American Association is to be celebrated in New York City in October in conjunction with the annual convention of the American Institute of Accountants.

In 1924 the American Institute of Accountants held their annual convention in St. Louis as a tribute to our City, and in recognition of the successful meeting of the Congress of Accountants at the Universal Exposition twenty years previously. At this convention we were honoured by the presence of Mr. James B. Sutherland, then President of The Dominion Association of Chartered Accountants.

Consolidation—The American Society of Certified Public Accountants was organized in 1921, and the organization grew quite rapidly. However, during the course of the next few years feeling developed among members of the profession that there should be but one national accounting society in the United States and as a consequence committees were selected representing both the American Institute of Accountants and the American Society of Certified Public Accountants to the end that a plan might be formulated to effect the possible consolidation of the two organizations.

As a result of the diligent and painstaking efforts of these committees, and of the plans formulated, a merger of the two societies was effected at a combined meeting held in Dallas, Texas, last October, afterwards ratified by mail vote. The total membership of the combined association is now approximately 4,700.

There were those who desired that the name of the organization be changed to American Institute of Certified Public Accountants. The proposition was subsequently submitted to the combined membership for a ballot by mail, but the proposition failed to carry, and hence the name, American Institute of Accountants, is still maintained.

Program of Activities

"In unity there is strength," and with the great majority of public accountants united, the American Institute of Accountants is now prepared to move forward and obtain greater recognition of the important part which the profession must necessarily take in the business life of our nation.

To this end the Executive Committee of the Institute has approved the publication of a program of activity for the present fiscal year which will

- (a) Provide members with a detailed outline of the scope and nature of the Institute's work;
- (b) Assist the council, officers, committees and employed staff in planning the work for the year;
- (c) Indicate the inter-relationship and relative importance of the Institute's many and varied activities;
- (d) Reveal new possibilities of constructive service;
- (e) Serve as a guide in preparation of the budget;
- (f) Serve as a measuring stick in appraising the results of the year's work.

Committees—Thirty-six committees have been elected or appointed during the current year, all of which are functioning, and the members of these committees are giving very generously of their time to the work assigned to them. The work of some of them may be summarized as follows:

Committee on Professional Ethics:

(a) This committee considers complaints against members and associates alleging violation of the rules of professional conduct and, if necessary, files charges in order that hearings may take place before the trial board.

(b) It responds to inquiries, if such responses can properly be made, received from individuals on questions of professional ethics.

(c) It informs the membership of the decisions and opinions reached, so far as it may be appropriate to do so, in order that the Institute's findings may be available as a guide to all members.

Board of Examiners:

(a) This board provides uniform examinations in auditing, accounting and commercial law, developed in collaboration with state boards of accountancy, to serve as certified public accountant examinations in those states which elect to participate in the plan of co-operation. Forty states have adopted the examinations.

(b) It grades papers of candidates in those states which desire to submit their papers for grading by the Institute.

Committee on Education:

(a) This committee strives to formulate standards of accountancy education by which adequacy of college courses may be measured in so far as they equip students for professional public practice.

(b) It co-operates with accountancy instructors in an effort to bring about mutual understanding of the respective problems of instructors and practitioners of accounting.

(c) It considers the possibility of co-operation with universities in guidance of research undertaken by students of accountancy.

(d) It considers the advisability of the Institute's establishing prizes and awards to encourage research and professional achievement on the part of younger practitioners.

Bureau of Information:

(a) This body obtains answers to technical questions submitted by members.

(b) It publishes in pamphlet form a collection of questions and answers of general current interest received by the bureau, including an index to the subject matter covered, for distribution to all members and associates of the Institute.

(c) It advertises the service of the bureau with a view to increasing the scope of its usefulness.

(d) It provides questions and answers of particular interest for publication in *The Journal of Accountancy*.

Time will not permit me to enumerate all of the other committees and their respective functions; however, I should mention a few of the important ones which have much to do at present.

The Special Committee on Co-operation with Stock Exchanges consults with the New York Stock Exchange on accounting questions related to listing statements and annual reports to stockholders and other matters of mutual interest.

The Special Committee on Co-operation with Securities and Exchange Commission advises the Commission on proposed regulations affecting accounting and accountants under the Securities Act of 1933 and the Securities Exchange Act of 1934; it reviews stop order decisions of the Stock Exchange Commission and refers to the committee on professional ethics, or to the appropriate state society, apparently justified criticisms of financial statements which have been certified by members of the Institute or other certified public accountants.

Special Committees on Co-operation with Bankers and Investment Bankers discuss with these organizations accounting questions arising in relation to financial statements for credit purposes or for purposes of prospectuses, and encourage frequent joint meetings between state accounting societies and these organizations.

While there are numerous other committees constantly working on various problems arising almost daily, I believe that the foregoing comments will at least acquaint you with some of the activities of the Institute.

Relations with the Securities and Exchange Commission

On 29th March 1933 the President of the United States sent a special message to Congress recommending legislation for Federal supervision of traffic in investment securities in interstate commerce. In this message the President stated that "in spite of many State statutes the public in the past has sustained severe losses through practices neither ethical nor honest on the part of many persons and corporations selling securities." He further stated that "the Federal Government could not and should not take any action which might be construed as approving or guaranteeing that newly issued securities are sound in the sense that their value will be maintained or that the properties which they represent will earn profit." However, he stated, there was an obligation on the part of government, "to insist that every issue of new securities to be sold in interstate commerce shall be accompanied by full publicity and information, and that no essentially important element attending the issue shall be concealed from the buying public."

"This proposal," the President said, "adds to the ancient rule of *caveat emptor*, the further doctrine of "let the seller also beware." It puts the burden of telling the whole truth on the seller. The purpose of the proposed legislation was to protect the public with the least possible interference to honest business.

As a result of the President's message the Securities Act of 1933 was passed by Congress and was approved by the President 27th May 1933. Under the provisions of this Act, it was to be administered by the Federal Trade Commission, but in June 1934, the Act was amended to provide for the transfer, on 1st September 1934, of all powers, duties and functions of the Federal Trade Commission to the Securities and Exchange Commission, created by the amendment to the Act.

Time will not permit of any detailed explanation of the Securities Exchange Act; suffice it to say that through its enactment accountants are faced with new problems and added responsibilities, for in the service rendered to corporations with respect to the listing of securities, or the submission of current information to the exchanges, they will be held liable for the accuracy of the financial statements submitted; also for any mis-statement of a material fact, or for failure to state a material fact.

We welcome these added responsibilities, and by performing our tasks with intelligence, carefulness and honesty we can be of immeasurable benefit to the investing public.

Relations with the American Bar Association

For some years there has been criticism emanating from a limited number of attorneys-at-law aimed at accountants, claiming that they were stepping a little too far over the boundary line and in effect are practising law without the restraints imposed upon members of the bar.

It is possible and, no doubt, probable that this charge may be well founded in a relatively small number of cases. If so, and the offender is a member of the Institute, we shall take corrective measures but we cannot directly control non-members.

I believe, however, that we must first determine what constitutes the practice of law and also, perhaps, what constitutes the practice of accountancy. Has there been any contra infraction? Accountancy is a profession and has been so recognized by every state in the Union, and regulatory laws governing the practice of accountancy can be found in the statutes of each and every state. Have we not something to defend as well as the attorneys? The two professions should be closely united, for so many industrial and commercial problems in the United States today call for the services of both attorneys and accountants.

In my opinion, there cannot be any clearly defined line of demarcation in respect of practice before the Internal Revenue Department, relating to income taxes, although established rules may be defined in respect of other minor matters.

Let me present to you a few of the questions that have been given some publicity. The answers are my personal opinion and are not to be considered as the views of the American Institute of Accountants.

Question 1—Should accountants undertake the organization of a corporation, including preparation of articles of incorporation, charters, by-laws, minutes of organization meetings, etc.?

Answer—My opinion is that accountants should not undertake work of this character.

Question 2—Should accountants undertake preparation of papers necessary to incorporate re-organization or financing such as the issue of preferred stock? For example, the preparation of resolutions, drafting the necessary papers and advising on matters of procedure?

Answer—Absolutely not.

Question 3—Should accountants solicit tax claims?

Answer—The question might seem ridiculous to most of us, as Circular No. 230 issued by the Treasury Department prohibits the solicitation of federal tax cases by agents enrolled to practise before the Treasury Department, whether they are lawyers or accountants. It would seem to me, therefore, that this is not a question for argument between the American Bar Association and the American Institute of Accountants. The practice is forbidden by the government, and violates the rules of ethics of the American Institute of Accountants, as well as those of the American Bar Association, and so it would seem to be rather a matter for internal control.

Question 4—Should accountants make arrangements for splitting fees with attorneys on work which they do jointly?

Answer—Under no circumstances should such arrangement be made. In my opinion, the attorney and the accountant should have entirely separate and independent contracts with their clients.

Question 5—How far may accountants go in giving professional advice and opinions on questions of taxation?

Answer—I have heard it argued that if an accountant prepares an income tax return for a client, he is practising law, for the reason that in order to prepare the return the accountant must be conversant with the income tax laws, and often times must consult the law and the regulations in order to satisfy himself as to the deductibility of certain expense items or as to inclusion or exclusion of certain income items, etc.

The Government recognized years ago that the preparation of income tax returns was largely a matter of accounting, and that disputes arising from the audit of income tax returns by revenue agents might well be settled by conferences with accountants representing taxpayers. In order to properly control the practice in the department of in-

ternal revenue, cards have been issued to qualified certified public accountants, as well as to members of the bar, entitling them to practise before the department. While this privilege extends to the Board of Tax Appeals, I have never attempted to handle a tax case before that tribunal, and it is my opinion that when a tax case cannot be settled to the satisfaction of the taxpayer in conference with representatives of the Commissioner of Internal Revenue, it is the attorney's work to prosecute the case before the Board of Tax Appeals and before the various courts if necessary.

Even though a tax case may be tried before the Board of Tax Appeals and then on into the various courts, the attorney will, in the majority of cases, require the assistance of the accountant, in order that the facts in the case may be correctly stated, and consequently there should be the closest co-operation between the lawyer and the accountant in respect of practice before the Income Tax Department.

Under the provisions of the Securities and Exchange Acts, and regulations pertaining thereto, accountants have been issued cards authorizing them to practise before the Commission. It is again recognized that in presenting information to the Commission and to the various stock exchanges, the major part of the information required, after the first listing and registration, pertains to operating and financial statements. Where are accountants to stop in the presentation of information of this nature? Surely there must be some mutually satisfactory meeting ground in respect of practice before the Securities and Exchange Commission.

The Special Committee of the American Institute has met with the Committee of the American Bar Association on several occasions. These meetings are to be continued and I am confident that some definite agreement will be reached so that both the Institute and the Bar Association can formulate rules, which will be clearly defined, relative to these moot questions and to serve as a future guide for accountants and lawyers in the practice of their respective professions.

The Natural Business Year

The Institute has for several years urged its members to endeavour to have their clients adopt a natural business year. Considerable opposition was manifested for a time, particularly among bankers, and but little progress was made.

As a result of the activity of the Institute there was formed, in November 1935, a Natural Business Year Coun-

cil composed not only of members of the Institute but also of officials and representatives of such organizations as The National Association of Credit Men, Robert Morris Associates (bank credit officers), American Management Association, National Association of Cost Accountants, trade association executives, etc.

At a meeting held in New York on 11th September 1936, the Council approved a plan of procedure, the principal features of which were:

1. Extension of the activities of the Council through organization of local natural business year committees, and possibly adding to the membership of the Council itself;

2. Publication in pamphlet form of the available information on natural business year;

3. Continued research and dissemination of literature.

It was agreed that the most important step to be taken then was the perfecting of local organizations in the principal industrial cities of the country to direct activities in those communities. The nucleus of each local committee, it was felt, should consist of a credit man, a banker, a cost accountant, and a certified public accountant, and such others should be invited to participate as the local committees, when formed, should consider desirable.

Since that time the Council has been continuously engaged in the formation of these committees.

The Council has published four pamphlets entitled, *The Natural Business Year*: (a) *A Means to Efficiency*; (b) *Its Advantages to Business Management*; (c) *A Program of Local Activity*; (d) *Suggested Natural Fiscal Closing Dates*.

The last pamphlet contains a summary of the factors determining the natural business years of approximately fifty industries. It is planned that pamphlets supplementing this list shall be published from time to time as the necessary research is completed. Material relating to approximately thirty-five additional industries is now available for publication. To date there have been distributed approximately 10,000 of each of these pamphlets with the exception of "A Program of Local Activity." These copies were mailed primarily to: local societies of Certified Public Accountants; local chapters of the National Association of Cost Accountants; local Credit Men's Associations; mem-

bers of the Robert Morris Associates; and members of the American Accounting Association (University instructors in accounting).

Redistributions have been made by the local groups. Instructors have obtained copies for distribution to their students; and banks have requested copies for distribution to their customers, one thousand copies of each of the pamphlets having been distributed by one banking institution in New York City.

Hundreds of requests for literature have been received from individuals—from both those interested in promoting the success of the campaign and those wishing to know how their own concerns were affected by the natural business year.

Public addresses have been made before meetings of trade associations, chambers of commerce, credit associations, accounting societies, etc., and these addresses have been published in various organs of the associations.

The bureau of internal revenue furnishes the Council each month with tabulations showing the number of changes in fiscal years approved by the Commissioner of Internal Revenue. During the first seven months of the fiscal year 1936-1937, 1,286 changes to years ending at dates other than December 31st had been approved.

There is much to be done in the matter of education in respect of the natural business year. The adoption of the natural business year is not only more economical for seasonal businesses, but it is beneficial to banks, credit men, and the Government, as well as to the accountant, and we should, therefore, continuously strive to convince our clients that seasonal closings are more advantageous to all concerned.

I want you all to know how much I appreciate the honour and the privilege of appearing here with you today and to thank you for your patient attention during the reading of this paper.

If I have revealed anything which will aid you in the solution of some of your problems I shall feel amply repaid for my feeble effort.

THE FINANCIAL STATEMENTS OF GRAIN EXPORTERS AND SHIPPERS¹

By William Aitken, Chartered Accountant,
Winnipeg, Manitoba

IT IS essential in order to secure a coherent presentation of the financial statements of grain exporters and shippers that one have a fairly comprehensive picture of the movement of the physical grain. The present discussion must, of necessity, be limited to the more salient features of this particular phase of the grain business but it includes certain related problems encountered in quasi-governmental or pooling projects which do not usually arise in the ordinary operations of a grain exporting concern. Some conception of the magnitude of this industry may be gleaned from the series of articles in connection with grain in its many ramifications published some two years ago in *THE CANADIAN CHARTERED ACCOUNTANT*.²

Dual Aspect of Accounts

There are two distinct phases to be borne in mind in the preparation of the financial statements of grain exporters and shippers. Firstly, volume of handlings in bushels should be correctly shown with, secondly, related amounts in terms of dollars or their equivalent. The dual aspect of the accounts must be maintained intact throughout the organization, thus accounting as carefully for quantities as for the related funds. Any detailed presentation of the financial statements is obviously incomplete unless the bushel figures are incorporated. These, in terms of bushels, include volume of purchases or deliveries dependent upon the structure of the organization, sales, futures contracts, open purchases or sales commitments whether in the cash grain or futures markets, accommodation or other trades peculiar to the grain business incident to determining the financial position at any specific cut-off date.

It frequently happens in order to fill certain contracts that trade paper has to be switched for different grades,

¹A paper read at the Thirty-Fifth Annual Meeting of The Dominion Association of Chartered Accountants, Vancouver, 19th August 1937.

²See the issues of *THE CANADIAN CHARTERED ACCOUNTANT* for September, November and December 1934, and January and April 1935.

either due to the fact that a sufficient quantity of the required grade is not immediately available at the point of loading, or due to some change in the terms of the contract. While ostensibly these constitute purchases and/or sales to outside parties, transactions of this nature are offset one against the other and are not set forth in the statement of grain operations which reflects direct purchases and sales of grain.

Another feature is that where grain is sold in Eastern or Western positions or F.O.B. seaboard, generally speaking it is customary to exchange the option or futures contracts with the buyer. If held for any length of time, such futures contracts may be spread from one option month to another (unless delivery of the cash grain against them is contemplated). Again, although spreading between deferred months involves purchase and sale of futures contracts, these are applied net and do not appear as ordinary purchase and sale transactions. It is apparent in so doing that carrying costs are included in the futures contract price on the deferred months, although extraneous factors may cause the deferred month to be quoted at less than the nearby future.

It is, of course, considered good practice to condense the accounts for publication, but, as a general rule, the more intelligent detail presented, the less likelihood is there of subsequent criticism, particularly if the export concern embraces a wide membership or is of a quasi-governmental nature. Usually, if figures are combined under certain headings and fairly elaborate statistics as to exports, prices and other marketing data, etc. are available to serve as a basis of comparison over the given period, much undeserved criticism may result if full informative details are not submitted.

Where the accounts are published for circulation to such members, a comprehensive report should cover all items with explanatory comment more or less condensed to aid in their interpretation. An illustration of this form appears in the annual report of certain of the Canadian Banks, Public Utilities and enterprises of a like nature. No doubt, the majority of you have, on occasion, contributed to their preparation and will appreciate the amount of work necessary to convey the exact meaning to those directly interested.

Another point to be borne in mind is that during periods of wide market fluctuations, very careful consideration should be given to adequate reserves for decline in prices. The operation of the economic cycle should be studied in its relation to the primary grain markets at Winnipeg, Minneapolis, Chicago and Buenos Aires in addition to the Liverpool market. This feature is of paramount importance where any large volume of grain is handled and adequate protection against any marked price changes has not been afforded through the use of hedging facilities.

Hedging in the Futures Market

A brief summary of the relation of the futures market to the cash grain market may serve to clarify the use of these terms, although, for our purpose the present discussion treats upon the practical application of futures in their relation to export grain accounts.

The functions of the futures market may be considered under two main divisions, e.g., (1) the market making function in which the futures market serves to enlarge the trading interest and to direct the course of cash prices and (2) the hedging function in which futures are utilized by cash interests as a means of minimizing the possibility of loss from adverse major movements in price. Whether or not these functions are of genuine service depends upon their effectiveness in actual operation. If futures prices maintain a close and constant relationship to cash prices and at the same time reliably reflect fundamental trade conditions, there can be no question as to the economic usefulness of future trading.

Cash and futures contracts are closely linked together in price through the right of delivery. In "futures" contracts, transactions are entered into for the purchase and/or sale of grain during a specified deferred month but are not complete until fulfilled during such month and are governed by the rules and regulations of the respective grain exchanges. In practice very few contracts are ultimately so fulfilled, the great majority being offset at some point prior to or during the month of delivery.

While the cash and futures markets are held in general alignment through this right to convert, certain elements may be expected regularly to cause some deviation in the relation of the two markets. The amount of seasonal move-

ment varies widely, reflecting changes in deliverable as well as in total supplies, in receipts and shipments, in the condition of supplies, available storage space, shipping conditions and many other current market factors. These are the factors with which the hedger is most concerned.

By hedging cash commitments through counter-balancing futures transactions, grain concerns are in a position to minimize their risk incident to major movements in price. The practice of hedging is based upon the assumption that prices in the cash grain market will parallel those in the futures market. Of outstanding importance as a cause of uncertain variations in the cash-futures relationship are the current supplies of grain at principal market centres. After allowance is made for seasonal trend in cash prices the two markets conform fairly closely in their broad price movements, although for particular years and under the influence of special factors prices deviate considerably. In practice these deviations result in either decreasing or increasing the profit anticipated by a grain merchant, dependent upon the nature of his market position and the direction of price variation; but it is also true in practice that where hedging is consistently used on a fairly wide scale, profits or losses occasioned by these minor deviations to some extent offset each other. Success in hedging thus largely depends upon the maintenance of a normal and dependable relationship between cash and future prices.

Due to the fact that trade in futures assumes much larger proportions than that in cash grain and, more particularly, because speculators follow the market with a single interest in profit from fluctuations in price, special effort is made by those trading in futures to obtain every variety of market information. For this purpose elaborate wire systems, trading facilities, and news gathering agencies are employed which are not duplicated by the cash markets. For this reason, the futures markets are the first to receive and reflect current trade information. The cash market depends on the futures market as a basis for bids and in the placing of hedges. Thus, the sequence of change is from factors of market importance through futures prices to cash prices. The trade in futures, however, does not determine prices in the cash market. The same general information accounts for the level of cash prices and for the level of futures. In reaching the cash market, however,

it is subject to the interpretation of trading conditions prevailing upon the futures market.

It is evident that a double responsibility rests upon the futures market in its interpretation of crop and market conditions. If these are fairly and accurately interpreted, both futures and cash prices in turn will reflect prevailing trade conditions. But, if for any reason the futures market poorly and inaccurately interprets basic conditions, the result will be an artificial and distorted level in cash as well as in futures prices.

In this respect, the futures market serves as the gateway to the entire price structure. Upon it are focused the important forces of supply and demand. To properly interpret these, every effort should be made to maintain free interplay between the futures market and the cash market. It is only in the absence of extraneous influences of this kind that future trading can be justified from an economic standpoint and can serve fully the varied interests of the grain trade.

Transactions in the Futures Market

Where an export grain concern is long in a delivery month in the futures market, the short interests have the option of delivering cash grain on the basis of the previous day's market close. Such grain is restricted to certain agreed-upon contract grades with the privilege of delivering on contracts at certain discounts under the price quoted for the future, and must be in a spot position unless mutually satisfactory arrangements are made to the contrary. Such deliveries of cash grain, together with the resale, are classified under a special account and are not reflected as ordinary purchases and sales. Were such a procedure followed the volume of grain handled by the concern would obviously be overstated. In effect, what has happened is merely that long futures contracts carried are transferred to cash grain stocks or vice versa. Transactions of this nature have no bearing upon the open market position and the direct result is, of course, to increase the produce loans with the banks, the offsetting cash grain stocks appearing on the balance sheet.

Generally it is customary to show a net figure from trading in futures and this is frequently included in what is regularly termed "Grain Account." A much more in-

formative statement can, however, be presented if pit purchases and sales of futures are shown separately in terms of bushels and relative money values. The costs incident to spreading to deferred months are then shown as a separate deduction from the net sales figure resulting from futures transactions. The net futures sales consist of total sales of futures after deducting futures exchanged against sales of cash grain. This treatment serves to clearly indicate on the face of the accounts operations in the futures market and obviates the necessity of submitting detailed reports summarizing futures transactions.

This latter treatment is to be preferred in presenting the accounts of a quasi-governmental or pooling organization where detailed information in respect to handlings is considered of major importance, although it is, perhaps, on a somewhat more elaborate scale than is called for in the financial statement of the average grain export concern.

Market Position

To maintain effective control over current operations each department in the export grain organization must prepare daily: summarized reports covering handlings on grain received or purchased; sales and sales commitments and the basis (flat or futures exchanged); grain delivered; futures exchanged; futures open to be exchanged; futures sold, and similar data essential to the preparation of the statement of market position. Particular attention must be given to cash grain contracts on which futures have been exchanged but grain not delivered and vice versa, and to those on which the price is to be determined basis exchange of future at time of delivery.

Briefly stated, the daily statement furnishes a condensed summary of grain received, sold, the open market position and the handlings of the concern. In the same manner, sales are summarized to show total cash grain sales, completed and open. From the total cash grain sales, the sales basis futures exchanged are deducted to indicate flat sales of cash grain, to which are added the futures sales. The final figure represents the total cumulative sales of cash grain and futures for the period to date. The open market position is combined with this figure to establish the total handlings for the period. Where coarse grains are handled in addition to wheat, similar statements must be prepared

for each kind of grain. There is thus available data for the preparation of statistical information should this be required, and the control necessary to prove its accuracy.

Offers

The exporter is prepared to "offer" grain for export when disposition of grain has been effected at strategic points where stocks are available for export and for movement forward to any seaboard point where tonnage is booked. The first consideration in so doing is to prepare the offer slate upon which are computed the several elements of cost such as lakehead fobbing (elevation, inspection and weighing charges), lake freight and brokerage, lake insurance and outturn, interior elevation, seaboard fobbing and brokerage, ocean freight, ocean marine insurance, ocean outturn or superintendence, interest and bank charges. When the various charges enumerated are determined, the exporter would add to them the value of the grain basis in store at lakehead terminals.

Export offers fall into two general classifications—United Kingdom or Continent. The United Kingdom offer, if covering wheat, is made in sterling per quarter of 480 pounds. Thus the current rates of exchange on sterling must be known in order to enable the exporter to convert his dollar rate per bushel C.I.F. to sterling per quarter. Continental offers are made in dollars per 100 kilos and sometimes in guilders per 1,000 kilos.

Subsequent to the close of the day's market, cables are sent to the importer offering the grain and are generally good for acceptance until the opening of the Winnipeg market on the next business day following. The importer, having accepted the offer, cables the exporter to that effect, upon which certain routine procedure must be carried out in the exporter's office.

Ocean Freight

When offers are made it is necessary to secure "refusal" (option of loading) of the required space on ocean vessels for the quantities to be offered and to the centres to which offers are to be made. It is perhaps unnecessary to stress the importance of moving grain forward to strategic shipping positions from time to time. But it becomes even more apparent at this stage that the required quantity and grade

of grain in good condition must be promptly available at convenient points to fill orders for loading of ocean vessels. Should any congestion occur at any point in this forward movement, heavy costs might be incurred through inability to take up tonnage booked with the required grades and quantities of grain on the dates upon which loading must be effected. On occasion, depending upon the demand for space, it may be necessary to "take a position" on ocean freights and book forward freight contracts.

The first step is to book ocean freight which is recorded in an ocean freight record. Record of the sale is made in triplicate in a sales book, and copies are sent to the various departments affected giving the buyer's name and address, quantity sold, grade, time of shipment, place and price. If for nearby shipment (to be made within a short time of sale) it will be entered in the order book and the forwarding agent at Montreal will be advised to load the quantity sold on board the ocean vessel specified. When the grain is loaded the broker or agent at the forwarding office will forward full particulars to the exporter giving the ship's name, date of bill of lading, quantity loaded, stowage, where destined and bank in which documents are deposited. If for delayed shipment the same procedure is followed with the exception that shipments are classified and listed in order to take care of forward bookings under the required dates.

Foreign Exchange

In the export of grain a further element of risk is encountered where sales are contracted for and where under the terms of the contract shipments are billed in foreign currencies. Briefly, the exporter protects himself against loss by selling future exchange for the amounts involved. The customary procedure—taking a C.I.F. sale, United Kingdom, as an illustration—is to secure quotations from the various banks and sell sterling at the best rate to cover the offers made or, as an alternative on the basis of cable acceptances. The effect of selling sterling when cable acceptances on offers come in would be to assume the risk of fluctuations in sterling overnight, inasmuch as offers are based upon the market close, and cables are good until the opening of the Winnipeg market next day. During a period of unstable exchange values heavy losses might be incurred. To obviate this difficulty an element of speculation might

have to be introduced and sterling sold on the basis of estimated sales determined by past experience. Exchange variations might then result in a profit or loss as the case might be, but any major decline would be largely offset.

Superintendence

A word of explanation may be necessary as to the functions of the cargo superintendents. Shipments of wheat overseas are invoiced to the buyer on official seaboard weights as shown in the ocean bill of lading. The grain contract of the London Corn Trade Association expresses the terms upon which sales of wheat are made abroad and provides that deficiencies in bill of lading weights shall be paid for by the buyer. Consequently the seller is required to guarantee the outturn. In shipping to a few English points, notably London and Hull, and almost uniformly in shipping to the Continent, the custom is to sell "full outturn guaranteed," but in sales to the majority of ports in the United Kingdom the guarantee covers "within one per cent." The risk incurred in guaranteeing outturn is considerable, for at many foreign ports the facilities for unloading and weighing and the methods of handling are quite inferior to those at London, Bristol, Hamburg, etc. In addition thereto, prompt settlements of weight differences with buyers are difficult and are frequently the subject of dispute. In order to avoid the multitude of detail in looking after deliveries and effecting settlements and to reduce to a determinable figure the cost of the responsibility assumed by guaranteeing delivered weights, exporters avail themselves of the services of an organization formed to supervise the unloading and weighing of shipments at foreign ports and to make adjustments of all difficulties with the buyer. The contracts which exporters enter into with the superintendence company transfers the responsibility for the difference in outturn and the settlement of such differences from the exporter to that organization.

The primary functions of a superintendence company are briefly:

- (1) To supervise deliveries and bring pressure to bear to improve methods of shipments, discharge and weighing.
- (2) To guarantee outturn.

Such a company strives to reduce the element of negligence in shipping and to effect prompt and just settlement

of difference in weights. The rates charged for this service vary as to port of destination and are detailed in the contracts made with clients. The company also assumes responsibility where shippers have booked ocean freights and sent grain forward unsold in the expectation of finding a buyer either while afloat or upon arrival. In such cases it has sometimes been necessary for the shipper to discharge and store the grain, and the superintendence company, through its representative at the port of discharge, has been of service in such emergency.

Valuation of Cash Grain Stocks

Inventories of cash grain are taken off by grade giving full particulars as to date of terminal warehouse receipts, date stored, valuation and storage accrued. The quantities agree with the statement of handlings outlined above. The net stocks of cash grain are valued by grade after deduction of stocks required to fill open sales contracts. The bushel quantities of net cash grain stocks, open cash grain sales contracts and futures contracts combined check out with the open market position previously outlined.

Important factors in considering the valuation to be placed upon inventories of cash grain available for sale are the proximity of the grain to the market at which disposition will ultimately take place and the period required to effect sales. The valuation of unsold stocks is a relatively simple process provided the methods in use are sound. As the grain is moved into strategic positions to be made available to fill commitments, transportation costs, usually on the basis of current rates, to Bay, Eastern or Atlantic seaboard points must be added to the spot or in-store price at lakehead. Generally, the spot close on the market is taken as the basis of valuation but where stocks are carried in any volume the basis may be the October future less carrying charges. This latter treatment is preferable where heavy cash grain stocks are carried, the disposition of which may possibly be spread over several months of the new crop year. No advantage can accrue from valuing such stocks on the basis of the spot close in July or August where a premium obtains for cash grain as against the future in the nearby months. Our purpose, where estimates must essentially be introduced, is to reflect as accurately as possible, the financial position as of a given date. Ex-

traneous factors of an adverse nature having any bearing on that position must be taken into consideration in the accounts, having in mind that decisions affecting the policy, financial, sales or otherwise, may be based upon the accounts as presented. An extremely conservative viewpoint only admits of the submission of accounts where adequate provision is made for possible contingencies.

When abnormal circumstances alter the situation to any considerable extent, however, the valuation of inventories may not prove quite so simple. For instance, the unusual conditions attendant upon the recent economic recession call for extraordinary care in the valuation of inventories of cash grain. Similarly, extreme care will be necessary when any major variation in the general economic situation can be foreseen. This feature in practices relating to grain accounting is obviously influenced by factors arising out of the tariff and fiscal policies of importing countries, and other extraneous efforts to regulate the flow of grain into consumptive channels.

Having these facts in mind, it may be said that where stocks are large and a considerable period of time must elapse before their eventual disposition, provision should be made to carry such stocks over the required period. In this event, provision would have to be made for such carrying charges as storage, insurance and interest. Hence, the view is advanced that the valuation should, where the cut-off date is in July or August as occasion requires, be based upon the October future; that is, the estimated market value of grain in October less carrying charges. In estimating the October future, it is necessary to consider such elements as available supplies, prospective production, hedging pressure, shipping and climatic conditions, the international monetary situation, etc.

It is a difficult problem to determine what are major swings and mere fluctuations in market trends, yet it is desirable that this factor entering into inventory valuation should not be overlooked. In any event, due consideration must be given to the valuing of inventories where any downward market trend is indicated and substantial inventory reserves may have to be set up if a reasonably dependable balance sheet is to be presented.

Valuation of Open Sales Contracts

Open cash grain contracts are tabulated by grade, showing contract number, date, buyer, grade, quantity, price basis and port with carrying charges computed to date of completion. Many factors have to be considered in determining the valuation to be placed upon open sales contracts. Even at its best the export grain business is of an extremely hazardous nature and calls for highly organized machinery in its operation if severe losses are to be avoided. Insofar as shipments are concerned, contracts for space on both lake and ocean steamers must be considered in relation to the delivered price of grain. Adequate protection must be afforded against fluctuations in foreign currencies as sales contracts are effected. Provision for loss should be given effect to in the accounts even although this may actually be incurred subsequent to the cut-off date.

To a concern engaged in the shipping and export of grain, sales contracts are of major importance both from the standpoint of an accurate determination of operating results and from their importance in the preparation of the financial statements. They are divided into several categories. When grain is shipped for buyer's account, all charges such as lakehead fobbing, lake freight and brokerage, elevation at bay or seaboard points, etc. are borne by the buyer and charged to his account, plus the original cost of the grain which would generally consist of grain in store at lakehead. In the case of grain shipped by the export company to facilitate delivery on sales orders at Eastern points or at Churchill or the Atlantic or Pacific seaboard for overseas shipment, the various charges would be taken into account when effecting sales. These latter may be considered under the heading of "C.I.F." sales at Eastern or seaboard points, "F.O.B." sales at seaboard and "C.I.F." sales for export. As indicated by the terms used on grain sold "C.I.F." Toronto, Montreal, Buffalo, New York, etc., all charges are paid by the shippers and are included in the contract price as invoiced to the buyer. Similarly, "F.O.B." sales indicate that all charges are paid by the shipper free on board the ocean vessel at the port indicated. Export "C.I.F." sales are invoiced to the buyer all charges paid by the shipper at the agreed contract price and may be for delivery at ports of the United Kingdom, the Continent or to other destination designated in the contract.

In dealing with these open contracts, it will readily be appreciated that on Eastern sales contracts delivery may frequently be spread over several months dependent upon the terms of the sale and, where such is the case, adequate records must be kept to identify the grain. The details required will include name of lake vessel, lake bill of lading date, grade, kind of grain, the quantities delivered against the original contracts and the balance carried open and undelivered. Such contracts are for the most part entered into with millers. In effecting sales of this type, the sales offices must give due cognizance to the requirements of the buyers, such as mill capacity and protection of the accounts through carrying futures or deposit required to secure the seller against loss, should there be any material fluctuations in the market. Generally speaking, a prerequisite of handling contracts of this type is to have the Eastern office maintain close contact with the buyers, so that at no stage in completing deliveries against sales of grain, will any default occur with resultant claim for damages through inability of the miller to meet his commitments for the sale of flour.

In the preparation of the accounts at a cut-off date, all outstanding charges against open contracts must be adequately provided for. This, in turn, involves the tabulation of charges outstanding in the cost department from the sales contracts sheets. These sheets contain a complete tabulation of the original contract, with collateral sheets covering deliveries against the original contract and charges to be met on undelivered quantities on the basis of estimates furnished by the sales department.

It is evident, as in the case of all mercantile concerns, that any losses resulting from fluctuations in the market must be provided for; but there again enters the problem as to the most desirable means of dealing with profit on open contracts. If taken into the operating statements at contract prices, obviously any profit or loss from such market fluctuations is taken up in the period to which it relates. If default should occur through buyers not taking delivery, depending again upon the extent to which the company is protected, a loss may result, which is properly chargeable to that year's operations. A conservative basis of treatment is, of course, to set up a reserve for the spread between the market at cut-off date and the contract price

as tabulated from the sales contract sheets in the cost department. Generally speaking, however, such profits are taken up, although in the operating statements and in the balance sheet there is clearly indicated the fact that such open contracts are valued at contract prices as previously intimated and that all charges outstanding are adequately provided for in addition to carrying costs until date of completion.

The element of uncertainty surrounding the valuation of grain inventories applies equally well to Open Cash Grain Sales Contracts. The fact must ever be borne in mind that the balance sheet is a conservative estimate of the condition of an export grain organization and reflects the position of the concern as at a given date. It may vary widely within a comparatively short time and must be considered in the light of possible changes during the ensuing interval.

Costs as Applied to Grain

It is conceded that cost accounts as applied to grain vary a great deal in export grain offices due largely to the ultimate purposes for which they are designed. Working on the basis of completed sales it is not a difficult problem to convert the sales price to the basis of "spot" at the lakehead, after taking into consideration carrying charges included in the price C.I.F. Eastern or Seaboard points where grain is sold for forward shipment. Where sales were effected basis exchange of future, the futures would have to be applied against the particular sale in establishing the sales price. The objection to this particular plan is that on export sales to the United Kingdom or to the Continent exact charges are not available possibly for a period of four to six weeks. Hence, to obviate this difficulty, estimates for transportation costs are brought into account. When actual charges are available these are applied against such estimates and the variation shown on the cost sheets relative to each particular sale. Thus the cost figures are available within two or three days where it is essential that cost statements or average price statements be produced by grade over a period subject to wide market fluctuations.

The basic factor in determining average sales prices is computed by taking the average of all sales irrespective of grade, on the basis of One Northern. The average spread on sales of like grade is deducted from the average selling

level so determined, thus establishing the average price received by grade.

The extension of the bushel quantities of the various grades at the average prices so obtained will, in theory, equal the net proceeds of sales, basis Fort William or Vancouver, as the case may be. In practice the variations are slight.

The problem in assembling such cost data is, of course, one of volume of seasonal business. It is solved by the application of machine methods designed specifically to deal with each particular phase of cost work in its multiplicity of detail, co-ordinated to produce the information required as rapidly as modern electrically operated machines are capable in conjunction with a staff experienced in routing and assembling cost data.

Accrued Liabilities

In common with other types of grain concerns, every degree of care must be exercised to accurately determine the liabilities which are many and varied, more particularly in connection with cash grain stocks and open sales contracts. Complete schedules containing tabulation of grain documents and open sales contracts are available as indicated under the sections dealing with the valuation of these assets. The logical step is to complete the tabulation in taking up all accrued carrying charges in addition to transportation costs, conditioning, cleaning, etc., applicable to the period under review. Another point of major importance is that these schedules permit of the reconciliation of the bushel quantities in order to ascertain that adequate provision has been made for all accruals applicable to the period under review. It is perhaps unnecessary to stress the fact that in the preparation of accounts of this nature, tying up bushel quantities throughout affords an effective check upon both asset and liability items in respect to grain.

If the organization operates basically upon initial and interim payments for deliveries of grain, the liability for undelivered stocks must be provided for on the delivered basis, although the liability so determined for such stocks for balance sheet purposes might vary widely from current market quotations.

Conclusion

It is obviously impracticable to deal with other than certain major problems in their broad application in a paper of this type. Even if the routing of documents alone is considered for a typical C.I.F. sale the elasticity of the machinery in the export organization becomes apparent. To take care of the innumerable transactions which must be rapidly and accurately recorded in the most minute detail, perpetual inventory records must be maintained of stocks in all positions available for sale, afloat, sold and undelivered, and the respective banks to which the grain is hypothecated against produce loans. Furthermore, all stocks must be balanced at each day's close for if once a difference should arise, it is virtually impossible to conduct any effective check when operations commence for the following day.

Even taking into consideration the exhaustive analyses and schedules involved in the preparation of the operating statements and balance sheet, a detailed comparison should be made with financial statements previously taken off, as a further test upon their accuracy.

THE GODS OF THE COPYBOOK HEADINGS*

Mr. President, Distinguished Guests, Ladies and Gentlemen:

This happens to be my last speech in Vancouver as I am probably among the few who return to live on the Prairies after a year in Vancouver. I must not stand in the way of your change of President for I am sure that when Winter goes the Nightingale should not be too far behind.

I am going to talk to you tonight on "The Gods of the Copybook Headings." The old fashioned educator who made the copybook headings thought that we were better for some ethical instruction. Possibly a number of you had the same set I had, such as "Cleanliness is next to Godliness," "Honesty is the best policy," "A stitch in time saves nine," etc.

Copybook headings are gone, typewriters have come and the old bookkeeper with his copper plate calligraphy

*An address given by Mr. Robert England, M.C., M.A., at the annual banquet of The Dominion Association of Chartered Accountants 19th August 1937 at Vancouver.

has given place to adding machines and looseleaf ledgers. But one wonders whether the ideas behind the copybook headings are gone as well. They praised very Victorian virtues,—thrift, prudence, industry, family affection, punctuality and perseverance, and all the rest of it. We have reached a new age in which many of these things are not considered as important today as in the days of our youth.

Lenin's cynical way of minimizing the value of everyday virtues was to say "Truth is a bourgeois virtue." I noticed the other day that Mr. Brailsford, who is noted as somewhat of a radical, writes about this statement, that it was one of the worst slips in a great career. "Capitalism it is true does foster for the ends of profit all the qualities of the good apprentice, punctuality and honesty towards one's employer; but without truth no society can live."

"Communists have swallowed a cynical epigram whole and that is the primary reason why their unexampled courage, devotion and discipline have failed to carry their movement further in the West."

A Socialist is worried over this question of integrity. In the old days contracts were sacred but that has changed. Perhaps there are many debtors who feel like the debtor who replied to his creditors' bills as follows:

"We don't like your letter; you don't understand our very excellent system. Every month we take our surplus funds, we put them in the bank, then we take the names of our creditors and we put them in a hat and we draw. Your name was not drawn last month, but if we have any more of your damned nonsense we won't even put your name in the hat."

This sort of lottery for the payment of creditors is unfortunately too common. So Kipling's reminder is much to the point:

As I pass through my incarnations in every age and race,
I make my proper prostrations to the Gods of the Market
Place,
Peering through reverent fingers I watch them flourish
and fall,
And the Gods of the Copybook Headings I notice outlast
them all.

The Gods of the Market Place are the gods with which accountants have to deal. You are under no illusions as to

the complexity of a system whose data you are specially trained to analyze and record. May I suggest several lines of approach that emphasize the intricate nature of the mechanism. Take the mechanical difficulty on the demand side. Let us assume that you have a demand, say, for suits, and you have a sewing machine that will turn out a thousand suits. Now, take your demand for suits at 40 million, your demand for sewing machines then runs at 40 thousand; assume that your sewing machine depreciates in ten years, that gives you a replacement for the sewing machines of 4,000. Now then speed up your demand in the second year for your suits, that brings you to 44 million and this gives you a demand for 44 thousand sewing machines to turn out the 44 million suits. Now then you have to replace 4,000 sewing machines (that is, your depreciation has to be taken care of) but you have an additional demand of 4,000 machines needed to meet that increased demand for suits. That gives you a market for 8,000 sewing machines, or exactly 100 per cent. increase on the sewing machine side as compared to a 10 per cent. increase on your suit side. Now in the third year assume that your demand for suits slackens, that it drops about $2\frac{1}{4}$ per cent. leaving you a demand for suits of 45 million; that means 45 thousand sewing machines, and I think that you can see at once that the sewing machines needed would drop from 8,000 to about 5,000, or a decrease of about 32 per cent. Now assume a depression; your suit demand drops to 40 million, your sewing machines needed are 40,000; immediately you have 5,000 idle machines. At once I think it is clear that we are operating a system where the demand for consumptive goods can very easily get out of gear with the demand for capital goods.

A slackening in the growth of population, a change in the tastes of the consumer can be reflected back, depressing with increasing intensity the demand for the instruments of production. These demands are made effective obviously by the price mechanism. Mr. Aberhart, according to a press despatch, used the term "votes" in connection with dollars as used in money. Probably not a bad kind of analogy; our price system can be described as a continuous election with a form of proportional representation. We do vote for the things we want and we vote by dollars. Some people have too many votes, and some too few. But

it is doubtful if redistribution is not rather a social problem than an economic one. These votes are reflected back in costs, and production proceeds on a basis of displaced alternatives. But costs determine, to a limited extent only, the volume and quality of the product. There comes in the national and social objectives that obscure the concept of a simon-pure cost basis for our economy. Economists like to think of their science as divorced from social and political ends, as a sort of closed system concerned with the relationships of scarce means to given ends, along these lines. But national and regional pressures and objectives and psychological and sociological directives break in upon academic doctrine. There has grown up in the world a sort of geographic syndicalism each nation seeking to be self-supporting and protect its industries. I have hinted at the difficult mechanical synchronization of demand, the stubborn rigidities introduced into the price system by extra economic objectives. The system is not self-correcting as the classical economists thought. Concepts of equilibrium and solutions by a process of simultaneous equations have to reckon with consumer choices that are often irrational. Move back to the psychological causes that determine our choices in the matter of goods and what have you? After all our biological needs are fairly simple—clothing, housing and food. When we get together in communities and conventionalize these needs they become wants. We must have things alike, certain breakfast foods alike, certain kinds of things to eat; we must, when we come to a dinner of this kind, wear the same kind of uniform and so on. Conventions are made more imperative by astute handling of public opinion by the advertiser—our wants are transmuted into desires. We must admit that the basis of much of our economy rests not so much on biological needs or conventional wants but on desire—the stimulated want. In successful industries in which desire is manifest such as candy, tobacco, cosmetics, drugs, you see a reflection of “the pursuit of happiness” sanctioned by the Fathers of the American Revolution. The whole economic mechanism can not be understood apart from this driving force of desire. It is bound in the end to be a very unpredictable sort of factor bound to be capricious and indeterminate in its effects. Thus your consumer demand is affected by phenomena of sociological significance, and makes the problem of obsoles-

cence in the instruments of production urgent and vital apart from the difficulty of regulating the inevitably wide swings in the production of capital goods already illustrated. Behind all this lies the question of savings and investment and their relation to the monetary problem. Why should all this be of interest to accountants? Because I think you can see that as a profession accountancy has grown up as a result of the growth of an industrial and commercial order. In the days of the copybook you had local industry and agriculture, and in the heart of the society of our youth the family exercised a powerful social control. It looked after old age; it determined the vocation of the young; it was concerned with education; it was responsible for its unemployed members; and it cared for the sick. If you think about it for a moment you will realize that the family was in some respects a Communist institution, in the true sense of the word—it took from everyone in the family according to ability, and gave to everyone in the family according to need. Today the state has come in, individualized the population, and to some extent we have destroyed the social controls of the family.

On the first Feminian Sandstones we were promised the fuller life,

(Which started by loving our neighbor and ended by loving his wife)

Till the women had no more children and the men lost reason and faith,

And the Gods of the Copybook Headings said;

“The Wages of Sin is Death.”

In the Carboniferous Epoch we were promised abundance for all

By robbing selected Peter to pay for collective Paul;

But, though we had plenty of money, there was nothing our money could buy,

And the Gods of the Copybook Headings said;

“If you don't work you die.”

The industrial order as we know it has developed as the result of the commutation of feudal services into wages, the invention of machines, the movement from the land to the towns, the economics of factory and mass production. Accountancy has followed this evolution from the double entry bookkeeping, journal and ledger to modern auditing

and accounting methods that have brought your profession into the forefront of industrial and commercial advance.

In the shifting sands of our present economic order your profession then must rely on the urgency and immediacy of integrity and intelligent application of principles. Your work is bound up with the idea of faithful stewardship and it must ever seek integrity not only as something ethical but as a form of that intellectual objectiveness at which every profession ought to aim. Let us be clear about one thing; if our present system fails because of lack of integrity either individually or collectively, no other system will survive on its ruins. A socialist order can not succeed without what Lenin calls the bourgeois virtue of truth. Intellectual honesty then lays a responsibility on the accountant. Sometimes his terms differ from those of the economist. Accountants deal with periodical income, its source, its distribution and the data which gave rise to it. Too often, preoccupation with the recorded memory of an enterprise may exclude imagination and enterprise. The need for immediacy of method to correct and estimate and of flexibility are obvious and have given rise to modern cost accounting, to the technique of budgetary control and to continuous audit that have given the business man a clearer view of his problem. The balance sheet too often is meaningless to the man in the street. Obsolescence and depreciation are difficult problems and the legal concept of physical assets and capital structure has necessarily made the accountant adhere to the corporation set-up. Most balance sheets do not disclose the present value of the assets, yet historic cost is a doubtful basic yard-stick. Then the fine distinction of posting, the allocation of equities in a business are giving the accountant new tasks. Terminology and exposition are needed if the citizen is to understand what is involved. Methods must be devised to enable him to understand not only the results of private enterprise but the objects of public expenditure and the sources of income of our public bodies.

As to corporation accounts, if consumer, worker, bondholder and shareholder are to have confidence in an enterprise the accountant must learn to make his statements intelligible and clear. I am glad to see that you have a terminology committee at work. In these matters you are

dealing with principles and analysis, and synthesis must be lucid and cogent.

You are the recorders of a complex civilization. The Marxian thesis of the dichotomy between wages and profits which assumes that all wages are honestly earned and all profits are dishonest will, I know, appeal to you as too naïve. The real gap is that between the rural life of the past (the copybook days) and the urban amenities of the present. To bring the rewards of rural life nearer those of urban life will need statesmanship in Canada. The difficulties of the West are part of the struggle between town and country in that regard. As objective accountants you will, I hope, be able to sympathize, with those less favoured in point of economic return, who are unskilled in the intricacies of your science.

The economic order, of which you are the real scribes, is threatened by events all over the world. In Canada a fire is alight in Alberta. To recall men to a sense of corporate responsibility for obligations assumed by the community will be difficult. Collective integrity is often defective just because we have failed to understand its importance. The Gods of the copybook headings still survive. Individual and corporate integrity must be a major premise of your work and indeed of any rational ordered society.

THE ACCOUNTS OF AN AUTOMOBILE DISTRIBUTOR

By V. Randolph Clerihue, Chartered Accountant,
Vancouver, British Columbia

THE business of selling automobiles is one of the most competitive lines of business today, and there is no indication that it may become less competitive in the near future. To make the most of their business opportunity, it is imperative, therefore, that the distributors of and dealers in automobiles should know all the factors contributing to their success or failure.

The accountant does not and should not pretend to advise in the matter of sales organization and supervision; but from an adequate accounting system, he should be able to point out wherein the dealer's organization has duly succeeded or failed to produce satisfactory results. In the case of an inadequate net profit, whether the fault lies in the merchandising methods, unduly heavy fixed and other expenses, faulty management generally or in one department, or whether the business is hampered by its financial set-up, should be revealed by the accounts. Only if the accounting system is devised to give the necessary details, ratios and comparisons, can the accountant point to the factors that need correction to gain the ends desired by the owners of the business.

The following is a description of the accounts for a distributor of automobiles. By way of explanation it may be noted that a distributor is an agent of an automobile manufacturer who sells at wholesale to all dealers in that particular make of automobile within the distributor's territory, and usually also at retail within the city in which he is located. Therefore, by showing the arrangement of accounts for a distributor, the accounts for a dealer (the retailer) may be determined by eliminating those pertaining to the wholesale operations. Also, it may be noted, that the details given here contemplate the requirements of a fairly large business, where the management is occupied mainly with the larger aspects of the undertaking and requires a comprehensive analysis of all aspects of the business to enable him to keep informed regularly of what the organization is producing.

As a further introduction, it may be of interest to de-

scribe briefly the main features of financing car purchases by distributors and dealers. The distributor, or dealer, upon commencing business, unless he has very substantial working capital, arranges with an automobile finance company to finance both the purchases and sales for his business. Thus when he purchases one or more car loads of automobiles, for which the factory's draft has to be met before delivery, arrangements are made with the finance company for the necessary advances. The finance company will usually advance up to ninety per cent. of the invoice value of the shipment. As these automobiles are sold, the finance company must be paid back its equity in each. This equity is covered by an instrument of lien for the car load, supported by a separate note for each automobile; so that as automobiles are sold individually, they are released from the lien by payment and surrender of the relative note.

There will be, of course, variations of the foregoing, depending on the credit rating of the distributor. At one end of the scale it may mean a smaller percentage of the invoice value of the shipment which the finance company will advance, and at the other end the distributor may be allowed ten to thirty days credit by the factory, though this latter is quite unusual. With most distributors, thirty days credit is allowed only on the purchase of parts, the parts account being kept separate from the automobile account.

Automobile sales from distributor (wholesaler) to dealer (retailer) usually are on a cash basis. Deliveries to dealers are made in two principal ways; one direct from the factory in car loads, delivered to the dealer's railway station, and the other "off the floor" of the distributor's warehouse. In the first case the distributor is drawn upon by the factory for the car load, and when the distributor has been paid by the dealer, he pays the factory's draft and the railway company releases the shipment to the dealer. The dealer usually finances payment of such shipments through a finance company which has an office in the city of the distributor.

An "off the floor" delivery occurs when a dealer's customer wants a particular model or colour of automobile which the dealer then has not in stock and, in Western Canada, the customer may not be able to wait for delivery

from the factory. As the distributor carries a large stock and variety of automobiles of the make in which he deals, the dealer may make a trip (alone or with his customer) to the distributor's establishment and pick the automobile desired. Payment is made on the spot by a cheque of the dealer or his finance company, and the automobile is driven away.

Financing sales—the other function of the finance company—is familiar to all, and need not be described here.

Books of Account

Apart from describing a useful form of Car Sales Register, it is thought unnecessary to do more than indicate the usual books of original entry. (Henceforth the term Car will be substituted for the term Automobile, both for brevity and in order to conform with the usage of the business.) Such books will generally be:

- Cash book (which may be divided into cash receipt book and cheque register)

- Purchase register

- Journal

- Petty cash book

- Car sales register (above noted)

Parts, shop and gasoline sales invoices will be summarized and the totals journalized monthly, postings to the customers' ledger accounts being made from the sales invoices.

As commission earned by the salesman is really part of any retail transaction, the car sales register is the logical book to charge up the commission earned. The monthly total of the commission column will be analyzed as to new and used cars, and thus posted. The total thereof will be posted also to the accounts payable ledger control and the several entries to the credit of the accounts of the salesmen.

(Continued on next page)

CAR SALES REGISTER

[illegible]

The general ledger may be divided, by index tabs, into the following sections:

Balance Sheet	Assets	<ul style="list-style-type: none"> Current Fixed Deferred charges
	Liabilities	<ul style="list-style-type: none"> Current Deferred Capital and surplus
Trading and Profit and Loss		<ul style="list-style-type: none"> New cars—wholesale New cars—retail Used cars Parts Service Office and administration Other revenue and expenses

The purpose of such divisions is to facilitate the preparation of monthly financial and operating statements. To the same end, the ledger sheets in the trading and profit and loss section should be four column sheets, i.e., debit, credit, monthly balance, cumulative balance. Thus monthly and year-to-date balances are made available.

While it is thought to be unnecessary to give a complete classification of general ledger accounts, it is suggested that asset accounts be numbered 1 to 100, allocating suitable sequences to current, deferred charges and fixed; and liabilities allocated numbers 101 to 200, appropriately divided.

The trading and profit and loss section would be set up, as above, with New Cars—Wholesale given a prefix 10; New Cars—Retail, 20; Used Cars, 30 and so on. Sales would be given a second code number, say 1; Purchases, 11, so that New Car-Wholesale Sales would be numbered 10-1, New Car-Retail Sales, 20-1 and the other trading accounts developed likewise.

The expense accounts in each functional group, to which reference is made later, may be arranged alphabetically and numbered. Thus advertising might be given the number 21, prefixed by the department number to which it is

applicable; e.g., Wholesale Advertising would be 10-21; New-Retail, 20-21, etc. Thus among the expenses each function would bear the same number, prefixed by the department initial number applicable.

Subsidiary ledgers and records will consist chiefly of the following:

- Creditor ledger
- Accounts receivable ledger
- Notes receivable ledger
- New car record
- Used car record

Parts perpetual inventory.

The first three, above, being personal ledgers, need no explanation.

The new car record gives particulars of the type and equipment of each new car purchased, together with invoice amount, freight and any other element of laid-down cost. To the laid-down cost of each car that goes on the distributor's, or dealer's floor, must be added the cost of what is known as "make-ready," such as mechanic's time on necessary final adjustments and a filling of gasoline and oil. This record should show to whom the car was sold.

The used car record is on the same lines as the new car record. In both cases a separate sheet is used for each car. However, there will usually be considerable more expenditure between purchase and sale. As may be well known, the used car comes into the dealer's hands as part payment, or trade-in, on the sale of a new, or other used car. The used car must be reconditioned before it can be sold. The average reconditioning cost per used car depends mainly on two factors: (1) the standard of mechanical reliability the dealer has set for his used cars and (2) the economy with which his shop is run.

A useful method of ascertaining the history of used car trading is to give each used car a number. Starting with the first such trade-in, which will be numbered 1, the next used car taken in as part payment on a new car sale will be numbered 2, and so forth. When a used car is sold, it is quite possible that another used car of greater age and lesser value will be accepted as part payment thereon. Such acquisition, in the case of the sale of used car number 1, will be numbered 1A, and, if again, another used car is

accepted in part payment on the sale of 1A, it will be designated 1B. The ratio of new to used car sales depends on a number of factors, such as economic conditions, type of new car sold and the nature of the local market. In the present writer's experience, the ratio ranges from 1 to 1.5, to 1 to 3.

Inventory—Three methods of valuing used cars for inventory purposes will be described. In reverse order of complexity, they are:—

1. **Arbitrary Valuation:** This is a value set by the management, presumably guided by what the respective cars are worth in relation to market conditions. The weakness of this method is obvious; it depends for its reliability on whether the management is inclined toward optimism or conservatism.

2. **Monthly Value Reductions:** By this method the used car, when taken in trade, is recorded at the value allowed plus conditioning costs. Each month thereafter it remains on hand, it is written down, say, ten per cent. There are very logical reasons for this method, as it is found that a used car that remains on the premises more than a month probably is priced too high. Therefore the value must be reduced from what was allowed for it in order to sell it.

3. **Profit Reserve:** To illustrate this method, we shall suppose a new car costing \$1,000 wholesale is sold for \$1,200 retail, and that a used car valued at \$400 is taken as part payment on the deal. Neglecting, for simplicity, reconditioning and all other factors, a sale totalling \$1,600 (\$1,200 for the new car and \$400 for the used) must be effected before the profit of \$200 on the new car has been fully earned. The used car value of \$400 being one fourth of the \$1,600, a reserve of equal proportion of the profit is set up against the value of the used car. Therefore the journal entry will be as follows:

Customer	\$800.00
Used car purchase	400.00
New car sale (cost plus $\frac{3}{4}$ of profit)	\$1,150.00
Used car reserve ($\frac{1}{4}$ of profit)	50.00

Thus the net value of the used car will be \$350 and the same process is followed if, when it is sold, another used car is accepted as part payment.

(Note: The forms herein described are not adapted to the application of this method.)

Parts Subsidiary Record: This is usually a perpetual inventory on cards. These should be adjusted to actual physical count as frequently as circumstances warrant and permit.

Balance Sheet

A condensed balance sheet form is given here primarily for what it may reveal as to the nature of assets and liabilities. It, of course, is not exhaustive of all the possible items. The balance sheet should be at least comparative, as shown, and would have further value with an increase or decrease column also.

There is one item on the balance sheet that calls for comment, viz.; "Customers' deposits on future deliveries." These usually arise in the following ways: A customer may turn in his used car, say in the early winter, at an agreed valuation which will be applied to his credit upon the purchase of a new car in the spring; or a cash deposit against the first arrivals of a new season's model. Such liabilities are the reverse of deferred charges, and it may be added that a dealer does not mind carrying a substantial liability of this nature.

VIBER-EIGHT SALES AND SERVICE, LIMITED
Comparative Balance Sheet as at 30th June 1937 and 1936

	30th June 1937	30th June 1936
<i>ASSETS</i>		
<i>Current Assets</i>		
Cash on hand and in bank		
Accounts receivable— <i>Less</i> Reserve for bad debts		
Notes receivable— <i>Less</i> Reserve for bad debts		
Merchandise—per inventories at lower of cost or market value		
Total current assets		
<i>Fixed Assets</i>		
Real estate and buildings		
Furniture, machinery and equipment		
<i>Less</i> Reserve for depreciation		
Depreciated value		
<i>Deferred Charges</i>		
Insurance premiums, interest prepaid, etc.		
Total assets	\$	\$

THE ACCOUNTS OF AN AUTOMOBILE DISTRIBUTOR

LIABILITIES

Current Liabilities

Finance company—secured
Accounts payable—trade
Accrued charges—payroll, etc.
Customers' deposits on future deliveries

Total current liabilities

Deferred Liabilities

Agreement payable on real estate
Dealers' deposits

Total deferred liabilities

Capital and Surplus

Share capital authorized—Shares at—each
Less Unallotted —Shares at —each

Allotted and paid up —Shares at—each
Surplus—from surplus account

Total capital and surplus

Total liabilities and capital

Contingent Liability

Notes receivable under discount

Trading and Profit and Loss Accounts

The following pro-forma trading and profit and loss accounts are suitable for a departmentalized business where many of the expense accounts are, in their nature, applicable to two or more departments. Hereunder are shown the forms for a distributor, with provision for the wholesale operations. For a dealer only, the wholesale sections would be omitted:

Pro-Forma Trading Account

	Units	Sales	Cost of Sales	Gross Profit
<i>New Cars—Wholesale</i>				
Invoice price	X	X	X	X
Freight			X	X—
Make ready			X	X—
	X	X	X	X
<i>New Cars—Retail</i>				
Invoice price	X	X	X	X
Freight			X	X—
Make ready			X	X—
	X	X	X	X

THE CANADIAN CHARTERED ACCOUNTANT

Used Cars

Sale or purchase price	x	x	x	x
Reconditioning			x	x—
Disposal to wreckers	x	x		x
	x	x	x	x—?

Parts

Retail		x	x	x
Dealers		x	x	x
Wholesale		x	x	x
Shop—Customers		x	x	x
Shop—Internal		x	x	x
Freight—Inward			x	x—
		x	x	x

Service

Labour—Customers		x	x	x
Labour—Internal		x	x	x
Parts—Customers		x	x	x
Parts—Internal		x	x	x
Sub-let repairs—Customers		x	x	x
Sub-let repairs—Internal		x	x	x
Washing		x	x	x
Gasoline, oil and grease		x	x	x
		x	x	x

Total all departments	x	x	x	x
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Pro-Forma Profit & Loss Account

	Total	Whole-sale	New	Retail Used	Parts	Service	Office
Gross Profit	x	x	x	x—	x	x	
<i>Selling Expenses</i>							
Advertising	x		x	x		x	
Commission and salaries— salesmen	x		x	x	x	x	
Customers' service	x		x	x			
Demonstration	x		x	x			
Transfers and registration (Sometimes included in make ready)			x	x			
Travelling	x	x	x				
	x	x	x	x	x	x	
<i>Fixed and Direct Charges</i>							
Building maintenance	x	x	x	x	x	x	x
Depreciation	x	x	x	x	x	x	x
Fuel, light and water	x	x	x	x	x	x	x
General	x	x	x	x	x	x	x
Insurance	x	x	x	x	x	x	x
Interest	x	x	x				x
Maintenance of equipment	x					x	
Supplies—Operating	x					x	
Rent	x	x	x	x	x	x	x
Taxes	x	x	x	x	x	x	x
Telephone and telegraph ..	x	x	x	x	x	x	x
	x	x	x	x	x	x	x

THE ACCOUNTS OF AN AUTOMOBILE DISTRIBUTOR

Administration—Prorated

Bad debts	x						x
Collection and exchange ...	x						x
Legal and audit	x						x
Salaries—Office and sundry	x						x
Salaries—Supervision	x						x
	x						x
Total Direct Expenses	x	x	x	x	x	x	x
Administration prorated		x	x	x	x	x	x—
Total Expenses—Distributed	x	x	x	x	x	x	
Operating Profit or Loss ...	x	x	x	x—	x	x	
Sundry revenue	x	x					x
Net Profit or Loss	x	x	x	x—	x	x	x

The progressive distributor, probably, would require the following data for each department in the above form, namely, "This month," "This month last year," "Year to date this year," "Year to date last year;" also "This month" and "Year to date this year" figures of his budget, if such are maintained. For new cars—wholesale and retail, and for used cars, columns should be provided and completed for the "per unit averages," as well as the amounts from the ledger. Thus the manager can, by comparison, put his finger on unusual variations and trace the causes back to their sources. A convenient arrangement is one sheet with the foregoing data for each department and a summary sheet showing those particulars for the business as a whole.

Distribution of Expenses—Selling expenses are direct charges. The department to which they are applicable is ascertainable from the purchase order, invoice or pay roll.

Fixed and direct charges are distributable direct from the purchase invoice by identification or distributed to the various departments on a predetermined percentage basis. Depreciation, insurance and taxes on the building (if owned by the business) are distributable on the same basis as rent would be if not so owned. That is, an estimate is made of a fair proportion to each department, having regard to the floor space occupied and the relative value of such space. Fuel, light and water will be worked out having regard to the relative proportions used by the several departments, and the same applies to telephone and telegraph charges. It may be considered that the latter should be grouped with

administration, but where there is a telephone exchange with connections to the various departments, the distribution direct can be fairly made.

The expenses of administration are distributed on pre-determined percentages. Regard must be had to the weight given to each department. It should not be used as a leveling off measure, but careful study should be given to the services of administration and how they apply to the respective departments.

Unit Values—A very important analysis of the business of an automobile merchandiser can be made on the per unit basis. The trading and profit and loss account is thus prepared (for new cars wholesale and retail and used cars) using average unit figures. Wholesale operations are based on the average values for the number of cars sold at wholesale. Retail operations for both new and used cars are worked out using the number of new car units at retail as the divisor for each such item. The reason for this is that the used car sales are really part of the new car transaction. That is to say, a new car transaction is not complete until the used car taken in part payment is also sold. An auxiliary column of used car operations, using the number of used car units sold as the divisor, is also of value.

Unit values are particularly useful for comparative purposes, especially for the selling expense group. Also such figures are useful in preparing the budget in succeeding years.

Per unit values may also be prepared for the parts and service departments by dividing the amounts of sales, cost of sales, gross profit and expenses of those departments by the number of new car units sold during a given period. While these unit data have not the same significance as the unit value figures in the new and used car departments, they do provide ratios of new cars sold at retail to the factors in the auxiliary departments. Eventually normal ratios will be established for a given business, by which variations from the normal can be compared.

Budgeting—A budget will be found of great value to an automobile distributor or dealer even though one might casually suppose such a business was concerned chiefly with selling the greatest number of automobiles possible, and that being done, let results be what they may. Greater

THE ACCOUNTS OF AN AUTOMOBILE DISTRIBUTOR

familiarity with the details and problems of the business and the benefits obtainable from an adequate budget will readily dispel such an initial conclusion. To deal with the problems and methods of budgeting for such a business would require the length of a separate article and therefore will not be attempted here.

Dominion Automobile Dealers' Association Data

It is thought some figures showing something fairly representative of the business of retailing automobiles in Canada might be of interest in connection with this article. Therefore, with the permission of the Dominion Automobile Dealers' Association the following data from a brief presented by them to the Tariff Commission in December 1935 are given. This brief contained figures for the complete year of 1934 and also for the first nine months of 1935. For the purpose hereof, it is thought that the data for the year 1934 will suffice. It consists of totals and averages for 107 dealers, presumably being all for which adequate returns had been submitted.

TOTAL OF 107 RETAIL DEALERS FOR 1934

	Total	New	Used	Service	Parts
Units sold	45,014	16,749	31,265		
Sales	\$34,398,867	\$17,416,989	\$9,644,559	\$3,045,959	\$4,391,320
Gross profit (loss*)	5,580,065	3,829,979	622,303	1,325,029	1,047,360
Less Expenses	5,224,966	2,107,781	1,427,462	1,107,715	582,008
Operating profit (loss*)	\$ 355,099	\$ 1,722,198	\$*2,049,765	\$ 217,314	\$ 465,352
Add Other Income..	350,183				
Deduct Other expenses.....	457,312				
Net Profit.....	\$ 247,970				

AVERAGE PER DEALER FOR 107 DEALERS IN 1934

Units, Average per dealer	447	156	291		
Sales	\$ 321,485	\$ 162,775	\$ 89,202	\$ 28,467	\$ 41,040
Gross profit (loss*)	52,150	35,794	5,316	12,383	9,788
Less Expenses	48,831	19,699	13,341	10,352	5,489
Operating profit (Loss*)	\$ 3,319	\$ 16,095	\$* 19,157	\$ 2,031	\$ 4,349
Add Other income....	3,273				
Deduct Other expenses.....	4,274				
Net Profit.....	\$ 2,317				

THE CANADIAN CHARTERED ACCOUNTANT

AVERAGE PER UNIT FOR 107 DEALERS IN 1934

Selling 16,749 New and 31,265 Used Cars					
Sales	\$ 2,053.78	\$1,039.88	\$ 569.68	\$ 181.85	\$ 262.18
Gross profit (Loss*) \$	323.16	\$ 228.67	\$* 37.15	\$ 79.11	\$ 62.53
Less Expenses	811.96	125.84	85.23	66.14	34.75
Operating Profit (Loss*)	\$ 21.20	\$ 102.83	\$* 122.88	\$ 12.97	\$ 27.78
Add Other income...	20.90				
Deduct Other expenses.....	27.30				
Net Profit.....	\$ 14.80				

TRUST COMPANY ACCOUNTING*

By M. W. Waddington, Chartered Accountant,
Toronto

IN THE first place may I thank you for the invitation extended to me to speak to you upon this interesting subject. Although it is now some years since I had charge of accounts of this nature I hope that I may be able to give you some general idea of the information required of Trust Company accounts, of a system whereunder the required information is forthcoming quickly and of the manner in which the numerous details may be controlled in the books of account.

To those of you who are not familiar with the subject I might explain that the balance sheet of a trust company is presented in three separate divisions which are described as "Capital," "Guaranteed" and "Trust." The "Capital" section deals with the assets which are the outright property of the corporation, with the actual revenue and expenses of the corporation and with the capital stock and general reserve which constitute the shareholders' equity. This division of the accounts is of a simple character; it presents no unusual accounting problem and further comment is therefore deemed to be unnecessary.

The "Guaranteed" section of the balance sheet may also be described but briefly, since from an accounting standpoint it involves little in the way of difficulty to one familiar with ordinary double-entry bookkeeping procedure. The accounts in this department record the time and demand deposits made by the public, the interest paid on such deposits, the

*An address given at Toronto, 12th October 1937, at a meeting of the Chartered Accountant Students' Association of Ontario.

investments purchased with depositors' funds and the revenue derived from them. The trust company receives as compensation for its services the difference between income received and interest paid and the compensation is periodically transferred in cash to the appropriate revenue account in the "Capital" section. Trust companies are required by law to invest guaranteed funds in certain kinds of investments only. They are further required by law to keep all guaranteed accounts and all of the investments themselves entirely apart from any other accounts and investments with which they are in any way concerned. Compliance with these legal requirements is strictly observed. Apart from such considerations however, no special accounting problem arises and in the absence of any request for additional information further discussion of the "Guaranteed" section will be avoided.

We shall now proceed to the "Trust" division of the balance sheet, for it is in this connection that we do meet bookkeeping problems which are not encountered in other fields of endeavour. You are all familiar with the general characteristics of double-entry bookkeeping and of the amazing manner in which it can be used to disclose all information necessary to the intelligent conduct of the ordinary business enterprise. You will doubtless be surprised, however, to hear that double-entry bookkeeping does not of itself go far enough to control the numerous assets and business transactions which do occur in the many estates, trusts and agencies which come under the administration of the modern trust company. In this particular field we go a step farther. We find a new scheme of things which may be somewhat loosely described as quadruple-entry bookkeeping. This statement naturally calls for some explanation and the following comments are intended to clarify the situation for you.

In the ordinary business we are concerned with the usual assets, liabilities, revenue, expenditure and proprietorship accounts of the enterprise, and so-called double entries for all transactions faithfully reflect the changes which are constantly taking place from day to day. The same thing would ordinarily apply to the records of one complete trust account. You must, however, remember that trust companies, in many cases at least, have thousands of individual

trusts, that it would be impractical without the sacrifice of adequate control to maintain thousands of individual sets of self-contained records also that the amount and character of a trust company's responsibility or liability to beneficiaries is changing constantly.

In the system with which I am familiar careful distinction is made between original assets which are taken over and investments subsequently made by the trust company under the Trustee Act. The general ledger classification and the entire accounting system are designed to preserve that distinction. The trustee sets up the appraised value of the assets coming under its administration, it accounts for the conversion of those assets into cash, shows the manner in which such cash is applied to the liquidation of debt or the purchase of investments and as a final step the disbursement of the funds or the distribution of the assets amongst the various beneficiaries entitled to them.

I shall now set forth a general ledger classification which, though it is not lengthy, may be relied upon to control effectively trust assets running into very large amounts of money and embracing tens of thousands of individual items:—

Asset Accounts (representing property held in trust)

Original Assets:

- Original stocks and bond assets
- Original mortgage assets
- Original realty assets (equity only)
- Miscellaneous assets
- Interest on original mortgages
- Rents on original realty

Trust Investment Assets:

- Investments in mortgages
- Investments in debentures
- Investments in stocks and bonds
- Chartered banks
- Interest on investments

Liability Accounts (representing the trust company's responsibility to beneficiaries for assets in the form indicated)

Re Original Assets:

- Original stock and bond liabilities

Original mortgage liabilities
 Original realty liabilities
 Miscellaneous liabilities
 Original mortgage interest
 Original realty rents

Re Trust Investment Assets:

Trust mortgage investments
 Trust debenture investments
 Trust stock and bond investments
 Trust corpus cash
 Trust revenue cash
 Trust investment interest

To illustrate the manner in which the above controls function, let us assume that the trust company has been appointed executor of the John Doe estate and that the testator had died possessed of the following assets, namely:—

Residence worth \$10,000.00, less mortgage of \$4,000.00	\$ 6,000.00
Life insurance policy	10,000.00
\$5,000.00 Dominion Government bonds	
4½% maturing in 1944	5,500.00
Mortgage on former residence	3,500.00
Total	<u>\$25,000.00</u>

(Note: All assets taken over, even if they are proper trustee investments such as the Government bonds above, are set up as original assets and only investments actually made by the trust company are carried in the investment controls.)

These four assets would then be listed with appropriate descriptions on a journal voucher and from there carried to a specially designed original assets journal with four columns for increases (and four columns for decreases). The value of the residence would be inserted in the real estate column, the value of the life insurance policy in the miscellaneous assets column, the value of the bonds in the original stock and bond column and the value of the mortgage in the original mortgage column. The value of the residence together with all real estate items taken over during the period would be posted in total to the debit of original realty

assets and to the credit of original realty liabilities. The value of the life insurance policy together with the value of all motor cars, furniture, etc. taken over during the period would be debited to miscellaneous assets and credited to miscellaneous liabilities. Similarly the value of the bonds and of the original mortgage would reach the general ledger controls reserved for items of that character. Meanwhile, all of these items would have been posted by the personal trust department into subsidiary records which show all of the assets of any given estate together and by the real estate department, the stock and bond department and the mortgage department into subsidiary records which are ordered and designed to meet the needs of those departments respectively. (The real estate department's accounts are arranged according to the location of the properties; the mortgage department keeps the mortgage accounts in numerical sequence while the stock and bond department's records are arranged according to the nature of the security.) When posting to the subsidiary records has been completed it is a simple matter to find all of the assets of any given estate in the personal trust department. Similarly the holdings of all estates, etc. of any individual security can be quickly ascertained from the stock and bond department.

Having brought the original assets under control in the books of account the next move is to convert them into cash. To illustrate the accounting procedure necessary we shall assume that the government bonds in John Doe's estate were sold for \$5,550.00. In this event the cash would come into the stock and bond department whose duty it would be to prepare in duplicate an "Original" credit slip upon which would be entered the book value of the bonds (\$5,500.00) on the line set aside for the purpose and the profit of \$50.00 on the line reserved for sundry corpus cash items which do not affect the special two-way controlling accounts in the general ledger. The credit slip together with the cash would then be delivered to the teller's cage; original and duplicate slip would be duly numbered and the cash would be entered in the blotter. The duplicate credit slip would be returned for posting purposes to the stock and bond department while the original, containing a full description of the transaction, would be collected by the personal trust department for entry in the original cash

receipts book, the corpus cash ledger and in the subsidiary records maintained for the stocks and bonds of the John Doe estate.

As this transaction is entered in the cash receipts book we get our first insight into the operation of what I earlier described as quadruple-entry bookkeeping, and it takes place in the following manner. The cash book clerk places the original book value of the bonds, namely \$5,500.00, in a special column which is reserved for original stock and bond realizations, but the \$50.00 profit goes into a further column which is set aside for sundry corpus cash items only. When posted to the general ledger along with all other cash receipts for the period this particular transaction would affect the following general ledger accounts in the manner indicated below:—

	Dr.	Cr.
Chartered bank (for cash deposited)	\$5,550.00	
Original stock and bond liabilities..	5,500.00	
Original stock and bond assets ..		\$5,500.00
Corpus cash account of the estate, via one cash book column		5,500.00
Corpus cash account of the estate, via second cash book column ..		50.00

The accounts of the trust company now reflect the change that has taken place. On the assets side \$5,550.00 cash in the bank has been substituted for bonds having a book value of \$5,500.00. Similarly a change has taken place in the amount and the character of the corporation's responsibility to the beneficiaries; the trust company, instead of being responsible for bonds having a book value of \$5,500.00, is now responsible for the \$5,550.00 cash which it holds as trustee for the beneficiaries.

Before leaving the subject of original assets and cash receipts I shall only touch on the general ledger accounts which have been provided for interest and rents. As these items fall due from time to time the amounts are diarized by the departments concerned with their collection and the items are charged up in the subsidiary records maintained by these departments. The totals are posted to contra accounts in the general ledger and, thus brought under control, must be accounted for in cash or in balances outstanding. The effectiveness of this treatment from an audit standpoint is clearly obvious.

Interest and rents which are collected in cash are placed in appropriate columns in the cash book; the deposit of the funds is debited to the trust bank account; the revenue cash account of the relevant estate is credited and simultaneously the contra accounts set up by diary are reduced by the amount involved.

The trustee having converted an original asset into \$5,550.00 cash will naturally seek to reinvest the funds with as little delay as possible, i.e. unless such funds are distributable immediately or needed for the liquidation of debts. In this particular case we shall assume that \$5,200.00 of the capital cash on hand is invested in a first mortgage which has been selected to meet the requirements of the Trustee Act. Upon completion of the transaction one or more cheques totalling \$5,200.00 will have been issued; the debit slips will have been entered in a special mortgage investment column of the trust disbursement cash book and the appropriate trust bank account upon which the cheques were drawn will have been credited. The transaction would reach the general ledger controls as indicated below:

	Dr.	Cr.
Investments in mortgages trust . . .	\$5,200.00	
Trust mortgage investments		\$5,200.00
Corpus cash	5,200.00	
Chartered bank		5,200.00
The trust company's asset accounts at this point show that it holds as trustee the following assets, namely:—		
Original assets		
Real estate	\$	6,000.00
Life insurance policy		10,000.00
Original mortgage		3,500.00
Cash and investments		
Cash (assuming that no cash revenue had been received)		350.00
Mortgage investment		5,200.00
Total		<u>\$25,050.00</u>

The liability accounts would show the corresponding liability to the John Doe estate for which these assets were held.

In the above discussion I have indicated how the estate was originally set up in the records, how the controls were

affected by the conversion of bonds into cash and how still other controls were affected when part of the cash was reinvested in a mortgage. All of this I have covered in some detail so that the full procedure may be perfectly clear. Suffice it to say that if you have grasped the situation described you have come to understand the principal difference between trust company accounting and that of other businesses generally.

A great many cash transactions occur in the trust section of a trust company's activities. Under customary procedure the narrative for each such transaction is entered on a credit slip for cash receipts and on a debit slip for cash disbursements. Both sets of slips are numbered in the order of their occurrence, the credit slips at the teller's cage, and the debit slips at the cheque-writing machine. Predetermined totals of the day's cash transactions are established at these two points and everything can thus be balanced daily against such totals. In due course the slip numbers, the amounts and investment numbers, if any, are entered in the trust cash books. No narrative is entered in such records, however, for the story is already complete on the slips themselves and these are the posting media used.

Multiple debit and credit slips have been devised for cash transactions affecting two or more accounts. Their introduction enables bookkeepers to receive only the slips with which they are concerned individually. Loss of efficiency is thus reduced to a minimum.

Trust company accounting is a very broad field to cover and I hesitate to inflict further details upon you for fear of confusing instead of helping you. I should not, however, leave the subject without some reference to the great contribution which various office equipment devices have made to the effectiveness of modern trust company service. Bookkeeping machines, comptometers, cheque-writers, adding machines, addressograph machines and other such appliances have increased both speed and effectiveness to a remarkable degree. They have lightened considerably the load for those mainly responsible for the prompt and accurate presentation of the huge amount of information necessary from time to time.

WHAT HAVE WE DONE AND HOW? Colonel Robert H. Montgomery, New York

Presidential address delivered at the Fiftieth Anniversary Celebration of the American Institute of Accountants held in New York, 18th to 22nd October 1937.

Introduction

THERE is a war of ideas sweeping the world. Let us see whether or not any of these conflicting ideas concern us professionally. We are, and should be, in intimate companionship and friendship and confidence with our professional brethren and our clients, and by comparison of views, by new interpretations, we must face the responsibilities and problems of the immediate future. If we fail in this gathering to make at least one contribution to the solution of the abuses or wrongs or ignorance which make this world less livable than it should be, the lessons of fifty years will not have been learned.

As far as civilization itself is concerned we seem to have made no advance in fifty years. During these years more men have killed more other men than at any time in the history of the world.

It may be urged that men killing each other has little to do with our profession, but it has much to do. It was the World War which made business cost-conscious; it was war profits which made tax saving attractive.

Today we are in a hodge-podge of social security plans and redistribution of wealth threats and domination by labour threats, all of which do, and will have a direct influence on our professional work.

I think it worth our while to explore our position, define our aims, and plan changes if we are not satisfied.

A wise general consolidates his forces, examines his position, looks for weak spots, and strengthens his defences before he attempts a major forward movement. This is particularly true when his advance has been rapid and his troops are untrained.

In our profession our advance has been rapid and most of us have been only partly trained, yet today the public accountant is such a vital factor in the business, financial

and social affairs of mankind that he cannot be disregarded any more than in an important matter of health or law the prudent person would neglect to call in a doctor or a lawyer.

Whether he likes it or not the professional public accountant frequently is required to appraise the activities, the transactions of others, and say what he thinks, let the chips fall where they may. It is not unreasonable that once in fifty years or so, the profession should look at itself and attempt an appraisal. This is my job. I shall try to be as honest about ourselves as the public and our clients want us to be when we appraise our clients.

I shall try to be practical. I see no reason to apologize for the importance of educating the business public to pay big enough fees to professional accountants to enable us to remain as independent as we are today. We are charged with private as well as public duties.

Officers and directors of corporations who announce that the public interests are paramount and that the interests of their stockholders must be subordinated, should be thrown out. They are as dangerous to sound business practices as are the officers and directors who deny that business is charged with a public interest and who exploit their workers and the public. They are not prudent custodians of funds.

We are told that what we need is a new order that will lift the black shadow of insecurity from the homes of the land; an order that will assure opportunity to youth and comfort and dignity to old age; an order outlawing the brutalities of greed; an order that will give life, beauty, happiness, generosity; an order that will permit expression of the best in man, not the basest; and under which wolfish hates will not be a necessary part of the struggle for existence. That slums were allowed to multiply, where dull, unhappy wretches breed hates, because they have never been permitted to realize the bright promise of a democracy. That business was a dog-eat-dog affair in which the lowest and meanest, even though in a minority, were able to drag down the standards and make a mock of ethics.

The foregoing paragraph is quoted from the sayings of writers, some of whom receive substantial compensation

for their brilliant thoughts. Whom are they addressing? Exactly what is their place in the new social order? Accountants are forced to be practical analysts.

Less than twenty years ago because of an outstanding need followed by an inevitable demand we faced an enormous increase in our practice.

During these years we have made a surprisingly good record. On the whole accountants have been keen enough and versatile enough to meet each situation as it arose. If government, business, and finance could be counted upon to think and act as they have done, say for the past year, I would stop here and merely repeat what I said in the beginning regarding consolidating one's forces and one's resources. But I also said in the beginning that in the world today a war of ideas is being fiercely contested. We cannot be sure that our relations with government, business and finance will remain static.

Fifty years ago in the United States the public accountant was little known, little recognized, little wanted. His virtues were unheralded, unsung. He was little known because his kind were too few to be widely known and because enterprises were relatively small and in most cases their accounts as well as their affairs were supervised by the owners.

He was little recognized because the matters which were referred to him at that time were relatively unimportant and this unimportance tended to reduce him to the level of a clerk.

He was so little wanted that after he had been retained usually there was pressure to get rid of him, and impatience to get his report.

Even when he was most needed it was feared that the employment of public accountants would be looked upon as evidence of suspected fraud or irregularity, losses and doubt regarding financial strength.

Even when business grew bigger and public accountants were a little better known there was a reluctance to call one in. As late as thirty to forty years ago many investigations by public accountants were made secretly, often at night and on Sundays.

Thus the early days of the profession in the United States were filled with obstacles which were strong enough to discourage all but the toughest physically and the least nervous mentally.

The basic need was there all the time. What forces were at work to bring about the drastic change which has taken place?

I think all of the elements entering into the growing recognition of the profession can be reduced to a few words.

1. The written records, the accounts of business transactions in a vast number of cases were imperfectly, inaccurately or fraudulently stated. And many still are.

Consequently the public accountant's first duty was to FIGHT FIGURES.

2. It is astounding how many relevant figures may be omitted from records of business transactions, how many debits find their way to the credit side of ledgers and how many debits are entirely omitted. So that public accountants must FIND FACTS.

3. The third compelling reason for the employment of public accountants, and much the most important, is his duty, after fighting the figures and finding the facts, to assemble the figures and the facts and to TELL THE TRUTH about them, with clarity, conciseness and intelligence so that he who runs may read.

We must admit that the steps in our ascent were not easy ones. When recognition is grudgingly accorded it is more vulnerable than when it is gladly acclaimed. We cannot compare the accountant with the doctor of divinity or the doctor of medicine. We put these practitioners on a pedestal and we resist all attacks on them. We come nearer to the lawyers; who under any circumstances gladly calls for a lawyer?

We are here today because there was and is a need for us. That demand will continue as long as people feel a need to know the truth whether or not it hurts.

Telling the Truth

Eternal vigilance is the price of accounting as well as of liberty. And so I see very little change from year to year in the more important attributes of the public accountant. For more than forty-eight of the fifty years

under review I have intimately known the leaders of the profession in this country and in England and Scotland. Then, they were fearless seekers for the truth. Fifty years ago, poor as they were, no power on earth could have swerved them from their search. Nearly fifty years later as I look into the faces of my brothers in our profession from far and near, from the ends of the earth, I proudly see in these new faces the same proud determination, the same courage, the same stubbornness, the same men I saw nearly fifty years ago. And to those who are not here I extend a grateful prayer. I do not want to have anything to do with supermen. I want men in the profession with simple minds and indomitable courage to seek and tell the truth.

Our profession always has had a vision—this urge to find and tell the truth—and we should cling to it and continue to strive for its accomplishment.

I do not want to see our growth depend on anything else than that which has made us what we are today. We shall retain our strength just as long as we retain our independence—no longer.

If anyone outside of the profession—governmental or private, client or friend—is stronger than we are and is able to tell us what to do, is able to influence a statement or a report against our best judgment, from that moment the profession will deteriorate. It is not so today.

In order to tell the truth there must be some detachment from one's immediate environment; from the opinion of neighbors; from ambition, money, power, fame, comfort, security and ease. Have we the courage to proclaim the truth or do we shrink from the struggle?

The Protection of Investors

The protection of the investor is an interesting subject. The average investor longs to be protected to a much greater degree than will ever be practicable. He craves to buy low and sell high; he will borrow all he can and he *never* reads a balance sheet nor an auditor's certificate. This is an accurate description of an average investor. Of course, he should be protected! Changing the form of a balance sheet will not do it, nor splitting surplus into three or four divisions. The public accountant has done his part in finding facts and telling the truth about the accounts. The Securi-

ties Act and the Securities and Exchange Act have helped a lot.

But there always will be two or more concerns in the same line of business, with the same assets, one or more losing money and one or more earning profits. It is largely a question of management. I doubt if the day will ever come when the public accountant can certify in any way whatever to the future uses of assets. And if he is not able to guarantee future good management he cannot fully protect investors.

We went through a period when there was much talk about accountants as business and financial advisers. It happened to be at a time when business was good. Advisers were not much needed. When the depression came there was not so much talk about professional advisers. And yet that is when they *were* needed. If a professional accountant really is a good business man he should go into business. He will be happier and will make more money.

I do not like to have virtues or abilities which they do not possess charged against accountants. It is a liability, not an asset. It leads to expectations which cannot be realized. It makes accountants look foolish if not worse. We would like to be taken for what we are and no more.

As alluded to elsewhere there is a feeling abroad that public accountants are able to protect investors from mistakes which they would not make if they would pay more attention to our reports. I hope that is true, but the implication is dangerous.

We have to deal with conflicting elements; with the passion for quick profits and the assurance of safety. It is true that business practices and ethics are growing better but I doubt if there is any change today, as contrasted with fifty years ago, from the conflicting elements I have mentioned. What can we or could we do with the stock which sold at \$225 a share in 1929 and \$2.25 a share in 1932? What could and what did a Congressional Committee do? In my opinion, the Congressional Committee which recently purported to investigate the transactions of bankers, brokers and investment trusts did little or more than to rehash old stuff. Little of anything constructive was accomplished. Some of the witnesses attempted to point out that good management was the most important factor to be con-

sidered, and good management could not manage if hampered at every turn with intolerable restrictions.

Real protection to investors would be to explain that a stock earning \$2 a share selling at 100 probably is too high, but who can argue with one who tells you that nevertheless it will sell at 150?

If accountants are to have any part in assisting bankers and brokers to avert another panic, I think it will have to take the form of some publicity of earnings per share. For example, would it not check unwise speculation if anyone buying stock selling at more than twenty times current earnings were required to pay in full therefor?

In thousands of cases sales of businesses have not gone through because the astute prospective buyer has employed certified public accountants. But the casual investor is not astute. Warnings mean nothing to him. The more fantastic, improbable, the story is the more he bites. A stock is selling at 120. Tell him it should go to 130 and he does not even thank you and of course he does not buy. Tell him it will go to 400 and he kisses you on both cheeks, mortgages his home and buys freely.

A decent profit must be the first thought of management and the management should be all that the word "decent" implies. There must be no unfair competition, dog's wages, long hours, and child labour. If the management cannot be decent, it must be changed.

In many businesses decency has been the controlling factor for as many years as the businesses have existed.

The business man or capitalist who wants to fool the public should not be able to retain a reputable accountant.

Isn't the time ripe when he *must* have one or be prohibited from publishing any financial statements? It is done now in small part. It will be said "what did the certified statement do in 1929 to protect the investor?" To that we have a complete and satisfactory answer. Stocks were being purchased by the millions of shares in companies which were earning one per cent. or no per cent. as clearly set forth in certified statements.

Those with judgment, experience and training must go after privilege, exploitation, greed, and unfairness.

Can we see the meeting point of idealism and unfairness? The government sooner or later *must* recognize the unfair-

ness and unworkableness of taxing annual profits. It has been responsible for much of the attitude of business men to earn big profits when the going is good, to prepare for the inevitable lean years. Who can blame them? Who would not do the same?

If business is assured that profits can be averaged over a period of years, it will help in paying more stable wages. There should be an immediate stop to the taxation of annual profits. It is not enough to tax the high profits of one year at high rates and permit the carrying forward of losses, although that practice was permitted until Congress went hay wire and repealed it. Each year's tax returns should be averaged with the preceding four years.

I wish to quote in full a recent editorial from the New York Times:

Labor and Management

The Yale & Towne Manufacturing Company has announced that it is discontinuing its Detroit plant, which has employed 400 or more workers until it was closed by a strike on March 9. "Although we have been told repeatedly by the U.A.W. (United Automobile Workers) that they knew more of our affairs than we did," remarks the company's statement, "the fact is that this operation has not been profitable."

Officials of the union reply that the company's net profit in 1936 was \$2,000,000. The company's "total income" in that year was \$2,147,000, but after deductions for depreciation and taxes there was left an actual net income, in fact, of \$1,211,000. That the company's business was, on the whole, profitable, moreover, does not necessarily indicate that it made a profit on its Detroit plant.

The incident serves to emphasize that in the era of collective bargaining that lies ahead labor must rise to its new responsibilities by a closer study and a more sympathetic understanding of the problems of management. A union does its members a sorry service when it insists on an increase in pay which, because it cannot be met, results in the closing down of a plant.

What is needed above all is a sounder understanding of the relation of wage rates to profits, to prices, to production, and to employment. Wages depend primarily upon the productivity of labor. Collective bargaining can affect them within a certain margin, but beyond that they can be increased only as production and earning power are increased. When the attempt is made to push wages beyond the point that the earning power of the workers justifies, several results follow. Profit margins are threatened. If they are wiped out, plants must shut down and employees are thrown out of work. If, to avoid this, prices are raised, another set of difficulties develops. The higher prices reduce the purchasing power of the public; that is to say, of other workers. But, worse, higher prices lead to reduced sales,

which means lessened production, which means a smaller demand for labor, which prolongs or intensifies unemployment. Intelligent understanding of management problems on the part of labor can maximize wages, production and employment. If it lacks that understanding, the results can only be tragic for labor itself.

Investors should be protected and so should working men. The unions usually do not perform their part well. They are misled by inaccurate statements regarding profits and dividends. Is not there a place for the public accountant before the strike is called?

Why should not every labour union be required by law to retain a public accountant in every dispute in which capacity of a business to pay higher wages is an issue?

We are called upon to protect investors from the unscrupulous business men, more it is demanded of us.

Is it possible for the accountant to protect or help protect the investor or the public from the rapacity of unscrupulous labour leaders?

The Profession Cannot Survive Under a Dictatorship

The professional accountant has played a small part in federal or state government finance. Roughly speaking the government books are kept the same as the country store-keeper keeps his. A simple cash book is enough. A payment is a payment whether for running expenses or for the erection of a new building.

If the government embarks further into business and finance there will be less for the professional accountant to do.

In some government departments which deal with private enterprise there is unjustified criticism of their accounts and accountings, even though there is little to show that the government sets a good example. "Physician heal thyself" applies in this case.

Many years ago I had my first experience in how governmental accounts are kept. The city of Philadelphia owned and operated its gas works. Annual reports were submitted which showed small surpluses. When an offer to operate the works was received from a private corporation those opposed to the offer quoted the city's figures. Obviously an independent report was required. It was found that the city's published reports included the gross revenue

from operation but were woefully lacking in mentioning costs and expenses. Many millions of bonds were outstanding—no interest was included. No mention was made of depreciation of old buildings and equipment nor of the cost of replacements and extensions. The City Treasurer maintained many collecting offices but this expense was taken care of in the Treasurer's budget. And so with street lighting and many other direct and indirect costs and expenses. The comparison was so startling that the public for once was startled into an acceptance of the offer from the private concern.

Throughout the nation today there is a similar concealment of facts. Actual costs of government activities are concealed. If the facts were known I believe it would shock the nation.

I do not expect that there will be any sudden call on independent accountants to make known the truth regarding governmental accounting. My reason for discussing this point is that it is unthinkable that there should be an extension of the governmental method of keeping and publishing accounts. But we cannot hope to have government practise what it preaches.

It has been suggested that private corporations do not always furnish to the public all the information to which the public is entitled and that professional accountants are not insistent enough on such disclosures.

Any law which imposes dictatorial mandates of irresponsible officials is tyranny—nothing else. It may be Communism, Nazism or Fascism. Mussolini says the State is absolute. We do not agree.

As without vision a people would perish, so without courage the profession of the public accountant would perish. The profession of accountancy cannot survive nor flourish under a dictatorship. It requires for its growth, its strength, its maintenance, free air, free thought, free speech. In the fifty years of the growth of the profession in the United States we have lived and thrived in a free atmosphere.

In the early days of our struggles, our trials and our tribulations we were stimulated and strengthened by the friendship and we were educated by the experiences of accountants who like us were born in a free atmosphere, who

thrived in England and in Scotland where free speech, free religion and free air were their birthrights. They too had courage but courage would have helped them little if they had had to be martyrs.

I say again that our profession cannot exist, much less flourish, under a dictatorship. Perhaps religion may. Time will tell. Enlightened medicine may. Time will tell. But our profession, as I see it, today requires acquiescence if not actual support from the government as well as from the public. Accountants as martyrs will not arouse the enthusiasm nor the support of the people. The truth about accounts must be published not suppressed. It is one thing to cry moral truths in the wilderness and another to cry truths about balance sheets. Under a dictatorship we would not lose our courage but we could not use it.

As Chief Justice Hughes said: "Democratic institutions depend for their maintenance and success upon the processes of reason as opposed to the tyranny of force." Our profession has developed in a free country, step by step, always by processes of enlightened reason. We will survive and advance only by continuing to live in a free country and by retaining our courage, our integrity, our independence.

Where government can put its hand on one's statements and convictions the people are in danger.

So far in this country we have not been interfered with in our duty to tell the truth about the accounts of private enterprises. On the other hand, I know of no one who could tell the truth about our federal accounts even if the truth were permissible. In the case of some states and some cities highly illuminating statements are furnished to the citizen-owners. Maybe 5 per cent. of them — the other 95 per cent. are mysteries. There is much to be done to correct this concealment of facts and it should be done quickly.

In the case of labour unions now handling money in the tens of millions the mystery is still greater. How much do they collect? How much do they spend? We do know that statements, even incomplete ones, are not furnished to members. Substantial dues and contributions are enacted from members of unions. The members and the public are entitled to far more information than that now furnished by the officers of the unions. In its zeal to protect

investors why did the national government fail to compel some sort of accounting from labour unions which do an interstate business?

The Training of Junior Accountants

We have honestly tried to train those who will follow in our footsteps. Only by a united group of men of ability, of outstanding character and high ethical ideals, imbued with a sense of public service, are these qualities best instilled in the youth that is to take its place in the direction of our profession and our organization in the future.

The juniors who come to us usually are told that they must have some practical experience in public accounting before we can employ them. Which came first, the hen or the egg?

I am afraid that, in the United States at least, juniors without practical experience expect starting compensation entirely out of line with what they can earn during the early years of their employment. I wish we could do something about it which will be helpful. During my term of office I think that I have been asked oftener for a solution or at least a constructive suggestion regarding this problem than any other. Would it not be practicable seriously and continuously to study what might be done? Our committees have been the making of the Institute. How about a committee on "How can aspiring juniors get jobs?" In any event I hope that some of our members will discuss this question in the "Certified Public Accountant."

The Institute's Secretariat

I would like to see formulated a long range program for our secretariat. It should be planned on a scale which will permit more service to the individual practitioner and to students. The secretariat should not be submerged in any way.

What I mean is that there should be a continuous staff of specialists, who feel assured of their jobs and who can feel that the work they are doing will not be changed very much with changes in officers and committees every year or two. Under our present system an election of new officers and the appointment of new committees tend to interrupt the technical development of the Institute. Certain of our activities should be continuous and impersonal. It

is these to which I allude. I call your attention to the Secretary's report for the fiscal year which ended August 31st. I would like to see most of the activities reported upon continued without waiting for the appointment of new committees.

I base this suggestion on my own observation and experience. I merely present it for what it is worth.

Why Not Stand Still? — The Profession Is United

After long years of effort we have united our profession. From Maine to California and from Washington to Florida the Institute is recognized as the only national representative body of professional accountants in the United States. We cannot improve on that situation. We are under a grave responsibility to maintain it. We can only do so by constant vigilance. The officers and governing body must not relax their efforts at any time. It is not an easy task to maintain the respect and confidence of five thousand members of a highly critical profession.

But if the officers and governing body display energy, tolerance and reasonable intelligence I am sure the members will respond with reasonable tolerance and support.

I do not ask for standardization of accounting practice or procedure. That would mean the substitution of fixed rules for opinion and discretion. In fifty years we have learned much. If we had been standardized or unionized at any time during those fifty years I am sure we would have lost one of our choicest possessions—that of independence to express our convictions in each particular case submitted to us, and most cases differ from every other case.

In the coming years shall the accounting profession keep what it has gained in fifty years, fall behind or make further progress? It may surprise you to hear that I shall be satisfied if we can keep what we have gained.

I am afraid that I shall not follow the usual procedure when I refer to the future. Some will be shocked. When I look down upon you from my mansion in heaven fifty years from now I shall be content if I find our profession then has the same prestige as it has today.

I shall know that you have retained your courage and that you have kept the faith. If you have gained the whole

world and lost your souls I shall mourn bitterly even though my place in heaven is permanent.

We have been told so often that we cannot remain still, we must go forward or backward, that we are inclined to believe it.

Nevertheless, I ask the profession to stand still. I do not want it to change. It does not rest upon a foundation which has been built up gradually. It has today the same foundation it had fifty years ago. Our profession stands for the courage to tell the truth about accounts.

It is not a profession of supermen. One reason why I want the profession to stand still is that there is a growing tendency to expect more of the public accountant than he can perform. The values assigned to fixed assets on balance sheets should be read and used in the light of reason. But how often is that the case? If difficulties arise we find that the important factors of the future uses, and the management of the assets, were conveniently ignored.

We must stand like the Rock of Gibraltar on our independence. On this we must hang together or we will hang separately. Fifty years ago professional accountants did not consult with each other regarding controversial procedure. To a great extent they do today, but not enough. I look on this subject, as a vulnerable element in our position. I think we should strengthen it.

Another matter of concern is that of liability. Fifty years ago there was little or no thought in this country of the financial liability of public accountants. Today it is a problem with which we must concern ourselves.

Politics

In an atmosphere charged with political activities, including some activities with a fighting spirit I am moved to explore the part of the certified public accountant in politics. We are voters as well as practitioners. Needless to say there will be no word of partnership in my comments and suggestions. I will have failed in my purpose if these words can be construed to apply to one political party more than another.

During and after the World War there were so many rapid and radical changes in the economic and social structures of our country that the professional accountants were

barely able to keep pace with the changes. Accounting *principles* do not fluctuate with fluctuations in business and financial conditions and methods. Accounting *principles* have survived pre-war, war and post-war cycles; and laws such as anti-trust, NRA and others which vitally affected business methods and practices. We have survived the Securities Commission, which has done a good job. I repeat that notwithstanding the violent fluctuations in business conditions, changes in political philosophies and notable changes in accounting practice accounting *principles* have not changed.

The economic changes brought about not only by statutory but by economic laws have resulted in an increase in the volume of our practice and in our prestige. We are in that happy position of the demand having been greater than the supply. We have been peculiarly fortunate in that there have been few instances of failure to measure up to the high duties and responsibilities of the public accountant. These duties and responsibilities are so high, the burdens are so great that it would be natural to expect a greater percentage of failures than has been the case.

Can the profession stand the strain of more and greater responsibilities? Both political parties have declared for social and other legislation which will impose heavy burdens on business. We have a national debt which must be paid. We have an army of office holders who will strive to increase and will not consent to reduce that army.

We have retained our independence; we have kept the faith; we have upheld the high traditions always associated with the accounting profession.

We have been members of different groups and organizations; we have held different ideas regarding administration and procedure. Accountants are bound to differ in matters of this kind. We always have and always will. But we have decided that we will have only one national organization and that we will not divide our strength and our influence.

In all matters affecting principles and standards we will present a united front. I propose that we celebrate this occasion which marks the fiftieth anniversary of the bringing together of the public accountants of the United States by dedicating ourselves to a stern fight to protect our pro-

fession against all that may be detrimental to its high aims. Let us determine to maintain and increase the confidence in which we are held by the business public.

I think there is in governmental offices and in labour organizations, as well as in business, a field in which the independent public accountant alone can pass upon disputed financial issues without fear or favour and without political bias. We do not need to fight for the obvious precept that custodians of public funds, private property and trust estates should not audit themselves. It has been done, but with such disastrous results to the owners and beneficiaries that in due course it will be an unthinkable practice.

We cannot hope to make progress unless we fight for the ideals and standards which have come to us from the founders of the profession. There are a thousand obstacles to the attainment of any worth while good. Let us fight to maintain all that has come to us which is good and to eliminate everything inimical to progress.

Let's fight to raise the standards of the Institute in every way. Let's fight to suspend or expel any member who is guilty of conduct unworthy of a member.

Let's fight for a sane federal income tax law.

Let's fight any effort in any state to dilute or weaken the C. P. A. degree.

Let's fight to strengthen state laws and otherwise assist state societies.

Let's fight for sound business practices. Don't let us wait until unsound practices creep in, are reflected in balance sheets and embarrass the accountants who are asked to certify to them.

Let's fight any tendency, private or governmental, to break down the independence of the Certified Public Accountant by rules or regulations or business pressure.

Let's fight for honest accounting, clear financial statements and full disclosure of all essential facts.

Let's fight anyone who seeks the assistance of a Certified Public Accountant in the issuance of any kind of misleading statement.

Let's fight anyone who thinks that one Certified Public Accountant will supplant another who has done a good job.

Let's fight for easily understood accounting terms. Let's fight weasel words.

Let's fight bunk whenever and wherever it appears.

THE FIFTH INTERNATIONAL CONGRESS ON ACCOUNTING

The Committee of the Fifth International Congress on Accounting to be held in Berlin, Germany, 19th to 24th September 1938, announces that papers on the following subjects will be presented at that Congress.

1. Matters affecting the profession:

Development of the profession, internal regulations and law, organization of the profession and jurisdiction over members; fundamental principles of professional practice, particularly responsibility, regulations on advertising, competition and fees, sphere of professional activities, statistics of the profession.

This paper is intended to furnish comparative data in respect of the various countries, which may prove informative and useful for the further development of the profession in the individual countries.

2. Business planning:

Developments and objects of planning, practical methods of planning, giving typical examples of planning in full or in part and in particular as regards sales, production, purchases, capital expenditure, and financing, co-ordination and control of planning.

The object of this paper is to give a summary of practical planning methods.

3. Audit of annual accounts:

Balance sheet and profit and loss account, legal principles underlying the preparation and auditing of accounts; client's instructions, scope of examination and methods of audit; auditor's certificate and report; statutory and other audits.

This paper is intended to describe briefly the best practice in the audit of annual accounts and the problems arising in the actual carrying out of the audit.

4. Company law:

History and development of company law during the last thirty or forty years with special reference to financing, administration, accounting and auditing, brief sketch of company law in its present state and of any movements to reform the law.

This paper should supply data of a commercial and legal nature, which could be used in the preparation of a comparative summary of the company laws of various countries.

5. Auditing of concerns:

Definition and types of concerns, special purposes in their audit; problems arising out of consolidation of accounts and relative auditing questions, in particular the question of freedom of contract in concern relationships and restrictions (if any) on the valuation of concern assets and liabilities; methods of con-

solidating, the special problems of international concerns and taxation problems.

This paper should deal with any special points in the actual development of concerns in the country in question and with any auditing problems arising therefrom.

6. Auditing by and for tax authorities:

Persons engaged on the verification of taxpayers' returns and on advising on tax matters, and the status of such persons; relationship between accounts as prepared for general publication and those prepared for tax purposes; audits for tax purposes as compared with audits for other purposes. Are the accounts audited by government officials or do the revenue authorities rely on the co-operation of professional auditors engaged by the taxpayer?

In view of the wide differences in the fiscal systems of various countries, and of the fact that the revenue authorities of some countries maintain auditing departments, whereas such departments are unknown in other countries, difficulties will be experienced in producing data of value for comparative purposes. The national-papers can in this case only describe the existing system of taxation, of tax-auditing (if any) and of tax-advising.

7. Other auditing and advisory work:

The work of pool accountants; trustee functions in general; advisory assistance to business men in commercial matters and questions of organization; giving of expert opinion in legal proceedings or in non-contested matters; special audits.

This paper should describe the work in connection with trustee, auditing and advisory matters, which actually falls to be done in the various countries by members of the profession, apart from the usual annual audits. The paper should deal with questions of organization especially.

8. Methods of computing cost and control of prices by public authorities:

The fixing and supervision of prices by the Government; general methods of computing cost and the problems arising thereout, in particular the apportionment of overhead, importance of the degree of capacity worked, process costing, purchase or replacement cost, profit margin, comparisons and indices.

This paper should set forth, on the one hand, the basic theories of costing and pricing, and, on the other hand, the practical experience in various countries of the actual effect of price control by public authorities.

It is the wish of the Congress Committee that each country shall present one national-paper on every subject. The main object of these national-papers, according to the announcement of the Committee, is to bring clearly before the members the experience gained and any exceptional points so far as they are peculiar to the country in question. Subsequently a general paper on each subject will be issued summarizing and commenting on the national-

papers. The papers, which are to be the personal opinion of the writers and not of any professional association, are to be submitted on or before 1st January 1938. Any person wishing further information should write the Secretary-Treasurer of The Dominion Association of Chartered Accountants, 10 Adelaide Street East, Toronto.

GENERAL NOTES

Fiftieth Anniversary of the American Institute of Accountants

On October 18th to 22nd at New York, the American Institute of Accountants celebrated its fiftieth anniversary in a series of business sessions and special events at which 1366 members of the profession were in attendance. A large number of representatives were present from Canada, England, Scotland, Ireland, Australia, Mexico, Holland, Germany, Porto Rico and Japan. Those from Canada included Frank A. Nightingale, Halifax, President of The Dominion Association of Chartered Accountants, and Mrs. Nightingale and Miss Nightingale; Kenneth W. Dalglish of Montreal, a member of the Executive Committee; and Austin H. Carr, Toronto, Secretary of the Association and Mrs. Carr; Guy E. Hoult, President of the Quebec Society; Alfred B. Shepard, President of the Ontario Institute and a former President of the Dominion Association, and Mrs. Shepard; J. Gray Mundie the official representative of the Manitoba Institute and a former President of the Dominion Association; John Parton, Winnipeg, a former President of the Association; Harvey E. Crowell representing the Nova Scotia Institute and a former President of the Dominion Association, and Mrs. Crowell; Mr. and Mrs. Walter Macdonald of Winnipeg; Mr. and Mrs. H. S. Hawthorne and A. A. Gowan of Montreal; Gordon Hayman of Halifax; Gerald Jephcott, Mr. and Mrs. Rutherford Williamson, and Mr. and Mrs. S. H. Greenwood of Toronto. Among the representatives present from England were Roger N. Carter, A. E. Cutforth, H. L. H. Hill and R. W. Bankes, representing the Institute of Chartered Accountants, and Walter Holman, Sir Thomas Keens, C. Hewetson Nelson, Henry Morgan and A. A. Garrett, representing the Society of Incorporated Accountants and Auditors. Professor William Annan, and Matthew Mitchell represented the Chartered Accountants of Scotland; and G. Brock, the Institute of Chartered Accountants of Ireland.

The address of the President, Colonel Robert H. Montgomery, which is published in this issue, was an outstanding feature of the opening session on Tuesday morning, the 19th. Other addresses of the general sessions were "Public accountancy in the United States," by Norman E. Webster,

"The relationship between accounting and taxation in the United States," by Norman L. McLaren, and "A history of the relations between the accounting profession and regulatory bodies in the United States," by Andrew Stewart. A number of interesting round table discussions were held, the following being among the subjects considered: "Accounts of governmental authorities;" "Practice problems of accountants in connection with registration statements;" "To what extent can the practice of accounting be reduced to rules and standards?" "Inventory—what is the lower of cost or market?" "Education for the accountant;" "Aptitude tests for staff accountants;" and "Accountants' certificates." On the invitation of the American Institute, Kenneth W. Dalglish of Montreal contributed to the opening discussion of one of the round table groups.

One of the features of the Banquet on Thursday evening was an address by Charles R. Gay, President of the New York Stock Exchange. Another interesting part of the convention programme was the broadcast Wednesday evening by Roger N. Carter of Manchester on the political situation in Europe and the factors which contributed toward peace.

At the council meeting held on Friday afternoon, Clem M. Collins of Denver, Colorado, was elected President of the Institute for 1937-38.

The elaborate programme of entertainment which was provided for the members, the delegates and their ladies, was greatly enjoyed by all, and the memory of the kindness and hospitality of the members of the American Institute will long be remembered by the Canadian chartered accountants who were present.

Our Contributors This Month

The contributors this month are pretty well known to our readers. The paper of WILLIAM AITKEN, who is President of the Institute of Chartered Accountants of Manitoba, was read at the recent annual meeting of the Dominion Association, as was also that of EDWIN H. WAGNER of St. Louis, Vice-President of the American Institute of Accountants. ROBERT ENGLAND, former Director of the Department of University Extension of the University of British Columbia, is now associated with the Winnipeg

Electric Company. Both V. R. CLERIHUE of Vancouver and MELVIN W. WADDINGTON of Toronto are former contributors to our pages. In March 1935 Mr. Clerihue explained the accounts of an air transportation company. In August 1932 Mr. Waddington outlined the uses of accounting machines; and from his intimate knowledge of trust company accounting as chief accountant for some years of the Toronto General Trusts Corporation now contributes a paper on that important subject. ROBERT H. MONTGOMERY, President of the American Institute of Accountants, needs no introduction to accountants.

New Zealand Accountants

The New Zealand Society of Accountants has recently issued its 1936-37 year book. Membership in the Society at 31st May 1937 has now reached the figure of 2677, consisting of 809 public accountants and 1868 registered accountants. The Society was formed in 1909 and has steadily increased in prestige and influence. Consideration has been given recently to the introduction of apprenticeship and service arrangements in the profession. At present intending practitioners need not have practical experience before being granted a transfer to public accountancy status. Reciprocal arrangements have recently been made with The Institute of Chartered Accountants in Australia, The Federal Institute of Accountants, and The London Association of Certified Accountants.

Gold Mining Industry

According to *The National Revenue Review*, production of new or primary gold from Canadian ores of all kinds in 1936 amounted to 3,748,028 fine ounces valued in Canadian currency at \$131,293,421 as compared with 3,284,890 fine ounces worth \$115,595,279 in 1935. The output of the precious metal in 1936 represents 14 per cent. increase over that of the preceding year and establishes an all-time high record in Canadian gold mining. Increases in output over 1935 were fairly well distributed over the gold-producing areas of the Dominion and largely reflect the bringing into production of new mines and a more intensive development and exploration of older properties. Ontario accounted for

63.5 per cent. of the output, Quebec 17.8, and British Columbia 12.1. The estimated average price per ounce of fine gold, expressed in Canadian currency, was \$35.03 in 1936 compared with \$35.19 in 1935.

PROVINCIAL NEWS

MANITOBA

The first of a series of regular quarterly meetings of the Institute of Chartered Accountants was held Wednesday evening, 29th September, at the Royal Alexandra Hotel. The meeting, which took the form of a dinner, was guided by William Aitken, President of the Institute, as Chairman. At the head table were assembled various members of Council as well as Dr. W. J. Spence, Registrar of the University of Manitoba, and T. H. Rathjen, Chairman of the board of trustees of the Manitoba Chartered Accountants Benevolent Association.

A feature of the evening was the presentation of prizes to winners in the year's examinations and awarding of membership certificates to successful final students who had been admitted to the Institute ranks. Congratulatory wishes and a welcome were extended to the recipients by Dr. W. J. Spence who is an honorary member of the Institute and acted as its Secretary for many years.

Silver medals and book prizes from the W. A. Henderson Medal Fund were won by Bruce Davis and Hugh Sutherland in the Intermediate class with an Honorable mention prize going to R. Barrett Simpson. President Aitken then presented the Institute Gold Medal and books to George M. Black, Jr. who was shown to be a popular winner by the acclaim of the meeting. Twelve newly admitted members received certificates of membership amid the congratulations of the assembly.

A report of the proceedings of the Dominion Association Convention at Vancouver in August was presented by F. Johnson, one of Manitoba's delegates. He referred, amongst other matters, to a paper which had been read to the Convention by William Aitken on the subject of Grain Accounting and to the election of George C. McDonald, C.A. of Montreal, a past President of the Dominion As-

sociation of Chartered Accountants, as President of the Canadian Chamber of Commerce.

Praise of the support given to the University by the Young Men's Section of the Board of Trade in the establishment of a Department of Commerce was emphasized by W. J. Macdonald in his remarks regarding the new course. The speaker also stressed the value of the training to the accounting profession in particular and referred to the appointment of Prof. James M. MacDonald of Dalhousie University as Head of the Department of Commerce.

Progress in the work of revising the bylaws of the Institute was reported by John Parton, Chairman of the Legislation Committee. The introduction of various special points resulted in a lively discussion in which many members took part.

The meeting was arranged under the direction of Ward McVey and about seventy-five members were present.

Announcement was recently made by the Institute of Chartered Accountants of Manitoba of a series of scholarship prizes for annual competition among students proceeding through the various years of the courses leading to admission to the Institute.

Of late years the Institute has been sponsoring a course of classes and examinations which are conducted on its behalf and under its supervision by the University of Manitoba.

Four scholarships of \$50 each are offered to students attaining the highest standing in the classes of the first four years, while a cash prize of \$100 will be the reward of the student in the final year whose aggregate on all papers is the highest. In order to retain the recognized high standard of merit the Institute council has, in the case of the above awards also, held the achievement of a sufficiently high standard to be a necessary condition of the winning of the prizes.

In addition to the new objectives, students will strive for the silver and gold medals and book prizes which are distributed annually.

Appointment of Frederick Johnson, C.A., to the post of lecturer in accountancy in connection with the new

Bachelor of Commerce course of the University of Manitoba was announced on 13th September last by President Sidney E. Smith.

Maritime Institutes

The second informal Maritime meeting of chartered accountants was held at the Canadian National Hotel, Charlottetown, on Friday, October 1st, on the invitation of the Prince Edward Island Institute. Sessions were held in the morning and in the afternoon, followed by a dinner at the hotel in the evening. The meeting was particularly fortunate in having present Mr. Frank A. Nightingale, and Mr. Austin H. Carr, President and Secretary respectively of The Dominion Association of Chartered Accountants.

The morning session was called to order by Mr. W. E. Massey, Secretary of the Island Institute, and with the following members in attendance, listed in the order of registration: Frank A. Nightingale, Halifax; Austin H. Carr, Toronto; G. E. Hayman, Halifax; R. S. FitzRandolph, Fredericton; G. P. Nicholson, Charlottetown; D. S. Hart, Halifax; David Reevey, Saint John; George W. Hudson, Moncton; Harvey E. Crowell, R. I. Balcom, Lloyd J. Wilson, and William Wood, Halifax; W. E. Massey and D. F. Archibald, Charlottetown; G. E. Martin, Halifax; John Anderson, Charlottetown; S. B. Rhude, Halifax; W. A. Morrell, Amherst; and Ralph Nickerson, Halifax.

Mr. George P. Nicholson, President of the Prince Edward Island Institute, who was appointed chairman, made a few brief remarks of welcome expressing his appreciation of the excellent attendance which showed a healthy percentage increase over the conference in Moncton of last year. He then threw the meeting open to general discussion which continued in full vigor right up to the noon hour adjournment.

Mr. Massey started the ball rolling when he asked for some particulars on the education of the chartered accountant student in Canada and if possible some information on the Ontario Institute course administered by Queen's University. Mr. Carr, with special reference to the splendid discussion on education at the annual meeting in Vancouver, dwelt on the importance of the subject to every Institute and suggested that the members read both Mr. Mapp's

annual meeting address, "Educating our Students—What is our Responsibility," which gave particulars on what the Ontario Institute was doing to meet the student's need, and the discussions of Mr. Johnson of Winnipeg, Mr. Rowe of Vancouver and others which are fully reported in the proceedings of the annual meeting, a copy of which is in the office of the Secretary of every Provincial Institute.

A keen interest was taken in this subject and the result of the lengthy discussion was greatly to clarify the minds of the various members with regard to what each provincial Institute was doing. It was pointed out that the question of a standardized programme of education for the students had been discussed at the annual meeting of the Dominion Association and a recommendation made to the Executive Committee to study the whole matter during the coming year.

The question was raised as to whether a uniform study course adopted by all the Institutes would result in virtually taking the control of admission of successful students to membership away from the local Institutes. The opinion was expressed that the decision as to who shall be admitted to the various Institutes was one which belonged entirely to the provincial Institutes, but that a programme of education and examination, supported by all the Institutes, would encourage uniformity of action by all the Institutes in the matter of student education. In closing the discussion it was suggested that the meeting should not lose sight of the fact that lectures by the various members of the Institutes were a valuable supplement to any mail order course of instruction.

The meeting then referred to the use by members of designations of some other accounting bodies in addition to the degree of Chartered Accountant. It was generally agreed that the use of such letters was discourteous to the various Institutes, but opinion was divided as to whether or not it would be possible to pass a disciplinary by-law covering the matter. The question of ethics was also brought up and, after more discussion with particular regard to the value of a written code of ethics, it was suggested by Mr. Balcom that an article on this subject in *THE CANADIAN CHARTERED ACCOUNTANT* would be most timely.

Mr. Hayman, Vice-president of the Nova Scotia Institute, referred to the next annual meeting of the Dominion

Association of Chartered Accountants which will be held in Halifax during August of 1938 and asked for the co-operation of the three Maritime Institutes. He was assured by the representatives of the other two Institutes that not only would delegates be sent but that, where possible, additional members would make an attempt to be present.

The afternoon session convened at 2.30 o'clock with Mr. Nicholson in the chair. The business in hand was to hear a report of the Dominion convention held in Vancouver during August of this year which was presented by the Dominion Secretary-Treasurer.

Mr. Carr, in the course of his remarks, stressed the importance of the conference and pointed out that, at the day-and-a-half session of the council, there had been 100% attendance. The report of the meeting was very interesting and dealt principally with five main points as follows:

1. The revision of the by-laws of the Dominion Association,
2. The International Congress on Accounting,
3. The program of public relations,
4. The report of the Committee on Legislation, and
5. The report with regard to the Prince Edward Island Institute.

The meeting was then thrown open to discussion which lasted until five o'clock.

Just before it adjourned, Mr. W. A. Morrell of Amherst asked those present to consider carefully the possibility of holding the next Maritime convention at Amherst in 1939.

Due to the inclement weather, the motor trip which had been planned through the scenic Bonshaw Hills had to be cancelled and the members of the Prince Edward Island Institute were forced to content themselves with showing the visiting members through the historic Provincial Building of Charlottetown, and later through one of the large Prince Edward Island fox farms.

A very enjoyable dinner was held in the evening at 7.30 o'clock with Mr. George P. Nicholson in the chair. A short address of welcome was delivered by his Worship Mayor Turner of Charlottetown, after which the chairman

called on Mr. Carr to introduce the speaker of the evening, Mr. F. A. Nightingale of Halifax, President of The Dominion Association of Chartered Accountants. Faced with the difficult task of presenting a professional talk that would be as interesting to the guests as to the Institute members, Mr. Nightingale dealt with the history of accounting which he made so interesting that his talk was followed by a flood of impromptu speeches by various guests who wished to pay special tribute to the work of the profession.

At 10 o'clock the dinner adjourned and the remaining part of the evening was spent in bridge and dancing.

ONTARIO

In honour of the delegates from the accounting bodies of Great Britain who attended the fiftieth anniversary celebrations of the American Institute of Accountants held in New York, the Institute of Chartered Accountants of Ontario were hosts at a formal dinner tendered at the Royal York Hotel, Toronto, on Monday evening, October 25th.

Among those who found it possible to be present were the following from the Institute of Chartered Accountants in England and Wales, R. N. Carter, F.C.A., Immediate Past President; H. L. H. Hill, F.C.A., Past President; A. E. Cutforth, F.C.A., Past President; R. W. Bankes, Secretary. The Society of Incorporated Accountants and Auditors was represented by its President, Walter Holman, F.S.A.A.

A. B. Shepard, F.C.A., President of the Ontario Institute, presided and introduced the guests who responded with addresses on matters of interest to the profession both in England and Canada. Colonel Nash in a few well-chosen words thanked the speakers for their splendid addresses.

OBITUARY

The Late Samuel Nathan Jordan

The Institute of Chartered Accountants of Ontario regrets to announce the sudden passing at Toronto on September 28th of one of its younger members in the person of Samuel Nathan Jordan in his 29th year.

The late Mr. Jordan was elected to membership on February 1st, 1935, and was a partner with his brother in the firm of Jordan & Jordan, Chartered Accountants.

To his wife and young daughter and his family the Institute extends sincere sympathy.

BOOK REVIEW

MUNICIPAL ADMINISTRATION AND ACCOUNTING

By C. M. Wrenshall

(Comptroller-Treasurer, Corporation of the Township of York)

With a Foreword by

E. A. Horton, B.A., M.B.A.

(Deputy Minister of Municipal Affairs, Province of Ontario)

(Published by *Sir Isaac Pitman & Sons (Canada) Ltd.*, 383 Church Street, Toronto, 1937, 296 pp., cloth, \$5.00)

Mr. Wrenshall's book is a very comprehensive work in the field of municipal literature, where the lack of textbooks on municipal government and accounting is so very great. This volume should be of valuable assistance to municipal officers throughout the whole of Canada.

While it deals in the main with the problems of the larger municipalities, the special section devoted to the smaller municipalities will be greatly appreciated.

I have no hesitation in recommending the book to all those interested in municipal corporation matters.

HOLLAND PETTIT, F.C.A.

Toronto,
29th September,
1937.

PUBLICATIONS RECEIVED

Cost Accounts For Wireless Retailers, by W. R. Dwerryhouse, A.C.A., (Gee & Co. (Publishers) Limited, London, 1937, 40 pp., 2s. 6d.)

Inflated Industrial Share Capital—A Plea For the Use of No Par Value Shares, by P. D. Leake, F.C.A., (Gee & Co. (Publishers) Limited, London, 1937, 16 pp., 6d.)

Solicitors' Accounts Under the 1933 Act, by W. J. Back, A.S.A.A., (Gee & Co. (Publishers) Limited, London, 1937, 16 pp., 6d.)

The Construction of Consolidated Accounts—Some Points to be Taken into Consideration, by T. B. Robson, M.B.E., M.A., A.C.A., (Gee & Co. (Publishers) Limited, London, 1937, 48 pp., 1s. 6d.)

Principles of Public Utility Depreciation, by Perry Mason, C.P.A., (George Banta Publishing Co., Menasha, Wisconsin, 1937, 140 pp., \$1.00).

Vérification Municipale et Scolaire, by J. A. Towner, C.A., Commissioner, Quebec Municipal Commission, Parliament Buildings, Quebec, P.Q., (Montreal, 1937, 296 pp.)

TERMINOLOGY DEPARTMENT

The articles in this department, unless otherwise stated, are originally written by the Department of the Terminology Committee, and after submission to its members, are revised to conform with suggestions offered by them. The views expressed are those of a majority of that Committee, and therefore must not be taken necessarily as those of each member.

If it should be thought that any articles include too much primary or elementary matter, readers are asked to realize that the Committee hopes these articles will be of especial value to Students-in-Accounts; and it is believed that, to impart a thorough understanding too much emphasis cannot be placed on the fundamental principles on which the ideas connoted in the term defined are based.

(continued from previous issue)

Annual Report: In Corporation practice, a yearly report in narrative form, whether or not accompanied by, or inclusive of, Accounts or Statements, usually written, presented at an annual meeting of proprietors or shareholders, in which the maker or makers give a résumé of the activities of the organization as their own responsibilities apply. Thus the President, either alone or jointly with the Board, might report in general terms on the whole trend of the company's business; the General Manager might supplement this by some details of operations; the Treasurer would deal with finances; the Auditor with the accounts. Except for banks, trust companies, and some of the larger corporations it is unusual to present more than the Directors' report and that of the Auditors.

Annual Returns—Annual Summary—Annual List and Summary. Information required to be filed in the Department of the Secretary of State annually under the Companies Act (Canada) (Section 121) by companies incorporated thereunder as to share holdings, debentures, shareholders' meetings, directors, etc. Similar requirements are in force under the Companies Acts of various Provinces in connection with companies formed under their authority and jurisdiction.

Annuity: A series of payments made over a term of years of a fixed annual amount to an individual known as the "Annuitant." The term implies that the amount is paid yearly, but in actual practice annuities are often paid at monthly or quarterly intervals; while the expression "Monthly Annuity" as used by Insurance companies is as bad a contradiction in terms as Mistress Quickly's "quo-

tidian tertian," it has nevertheless by common usage been accepted as meaning an annual amount divided into monthly payments.

An annuitant usually acquires his annuity as a provision for retirement or old age. Contracts can be made with the Dominion Government or with certain Life Assurance Companies, under which payments may be made in small amounts so that they, with interest accumulations, will be sufficient at the time of retirement to pay for the annuity, or a lump sum may be paid in advance to accumulate until the annuity shall commence. If it is desired that the annuity shall commence immediately, the whole of its cost must be paid in advance.

The various forms of annuities and terms used for and in connection with them are given below.

Perpetual—Annuities which continue for all time; e.g., Endowment Funds. The term "Consols" (British) is an abbreviation of "Consolidated Annuities."

Life—One for the remaining life of the annuitant.

Last Survivor—One which continues until the death of the last survivor of joint annuitants (usually husband and wife).

Immediate—One purchased by a single cash payment to commence immediately.

Deferred—One purchased either in instalments or by a single cash payment to commence at some future time.

Guaranteed—A life annuity which will continue for a specified number of years whether or not the annuitant survives that period.

Terminable—Payable for a fixed number of years only—also called "Annuity Certain."

Application and Allotment: See allotment.

Apportionment: A division of a whole into proportionate parts in respect of time or according to the rights of the various claimants. Thus in general the term may be applied to the division of a single item of expenditure among departments, or a single appropriation among subclasses of expenditures. It may also be used when the expenses of an association of business houses are assessed to each

member in certain agreed proportions; e.g., Sales, Wages paid, etc.

In Executorship Accounts Apportionment is the division of receipts and payments between Capital and Income, and between Life-tenant and Remainderman.

Appraisal: To appraise is to make an estimate of value, literally to "set a price on," and the performance of appraising is an "appraisement." The term "appraisal" represents the inventory of the assets appraised with the estimated values placed thereon and a certificate signed by the appraiser stating his opinion on the fairness of the valuation.

Appraisals made only for Directors or Management may be made by officers within an organization, but if they are required for the sale of a business, or for use in a prospectus for the sale of shares or bonds, it is usual to engage an independent appraiser or appraisal company.

Appraisal Surplus: The amount by which the appraised value of assets exceeds the net value as shown in the books of account (original cost less provision for depreciation). If such asset accounts are adjusted so as to reflect the appraised value, the Appraisal Surplus should be credited to a separate account suitably designated and for balance sheet purposes must be described as or form part of Capital Surplus (q.v.).

Appreciation: As used in Accounting, an increase in value attributable to outside causes rather than to any direct influence of management. e.g., Land, by reason of increasing population, or by valuable discoveries on or near it, etc. The increase in value of Land by the cost of actual development is not appreciation within this meaning of the term.

Appropriation: An amount set aside for a particular purpose, applicable in particular to the items comprising the estimated expenditures as shown in a budget, whether of a government, an institution or a business house. It is also applied to the disposition of profits in a company.

Arbitration: The submission of a matter or matters in dispute to a disinterested party (called the Arbitrator) for his decision, instead of resorting to litigation. The decision is called the "Award." Sometimes each party to a dispute selects an arbitrator, the two thus chosen selecting

a third, who is known as the "Umpire." By arrangement the award may be made an order of the Court, and is then legally enforceable.

Articles of Association: See By-laws.

Assessment: The setting, fixing, or charging of a sum by way of tax; the valuation of property for the purpose of taxation; the apportionment of expenses of an organization among its members, e.g., clubs or associations. The term is also used in connection with calls on shareholders in a company.

Assets: Commercially, property or funds in the possession of, or due to, any individual, partnership or company. Legally, property, etc. available for the discharge of liabilities. (Old French *asez*, *assetz*, French *assez*, enough; from Latin *ad*, to and *satis*, enough).

STUDENTS' DEPARTMENT

R. G. H. SMAILS, C.A., Editor

NOTES AND COMMENT

It is curious that so many people should make the mistake of supposing that an accountant is a mathematician or at least "good at mathematics", when it is doubtful as a fact whether in the course of a normal working day he does correctly as much or as difficult calculating as is done by a clerk in a ten cent store. Certainly we have known accountants—and quite good accountants—to whom we should be most reluctant to entrust the keeping of the bridge score; and we have known many accounting students who fell back defeated, from that simple mathematical device the logarithm. It is probable that the truly mathematical mind would make but a poor job of accounting and so as we go on our way making two times two equal five (and being corrected by our stenographers) we can console ourselves with the thought that we are better accountants for being poor mathematicians. But there is still the difficulty that the founders of the English Institute of Chartered Accountants chose as their motto: *Recte Numerare*. They must in their wisdom have foreseen the miraculous development of the calculating machine.

* * *

Examinations will once more be looming large in the minds of many of our readers and also, we suspect, in the minds of those awesome creatures the examiners—who are probably not amongst our readers. It would in any event be advisable for prospective candidates to assume that examiners are men who do not make mistakes—either mathematical or otherwise—and to govern themselves accordingly. In this connection it may be worth noting that a cooked balance sheet is a mathematical crime even though it may also be a work of art.

* * *

STUDENT ASSOCIATION NOTES

BRITISH COLUMBIA

At the first Council Meeting of the Students' Society held recently, the officers of the ensuing year were elected as follows—President, K. W. Atkinson; Vice-President, B.

W. Power; and Honorary Secretary-Treasurer, J. W. Bootle.

An interesting and active year is assured. The first place on the program has been given to an informal evening to be held shortly after the examinations. Details will be announced as soon as arrangements have been completed.

ONTARIO

One of the best attended functions of the Ontario Students' Association was the Fall dinner held in Toronto on 27th September at which 175 students, including a group from Hamilton, were present. Members of the council of the Ontario Institute were in attendance as special guests.

Mr. Russell Grant, C.A., a member of the examining board at the University of Toronto, and Professor R. G. H. Smails of Queen's University gave very timely and helpful advice on the technique of preparing for and writing of examinations and weekly lessons.

The holding of lectures in the Fall is one of the most important activities of the Ontario Association. The subjects for these lectures, as announced by the President, George Plummer, are as follows:

- October 4th—Standard Costs and their Application
- 11th—Trust Company Accounting and Auditing
- 18th—The Shareholders' Meeting of the Hope
Washing Machine Company Limited
- 25th—Examinations in Law—a joint meeting
with the Law Society
- November 1st—Approaching an Examination in
Economics

A new feature this year is the holding of study groups for first and second year students. From various subjects submitted the following were chosen by those interested: partnership accounting, the balance sheet, reserves and reserve funds, and accounting for limited liability companies. These groups are to be conducted by some of the young members of the profession and held in various offices.

QUEBEC

The first general meeting for this year of the Chartered Accountants Students' Society of the Province of Quebec took place in the Windsor Hotel on 13th October last. Mr. H. Gilbert, C.A., President, turned the chair over to the Honourable Gordon W. Scott, C.A., who introduced

the speaker of the evening, Dr. D. M. Marvin, Economist of the Royal Bank of Canada. The address dealt with the functions and responsibilities of the Bank of Canada, and was attentively followed by the 125 members present who learned what an important part in the welfare of the country a central bank plays.

The next gathering is to take the form of a mock shareholders' meeting scheduled for the 17th of November. This is being organized by Mr. H. C. Hayes, C.A., Mr. W. I. Ross, C.A., and Mr. C. T. Hulme, C.A., and many students are anticipating rising to their feet as angry shareholders, an opportunity not often afforded in one's every-day routine.

Mr. C. N. Knowles, C.A., Chairman of the Test Examinations Committee, is planning to have two sets of papers this year, one to be held during December and the other in the Spring. It is considered advisable to have the first of a slightly easier nature and the second as difficult as the real final examination. The students can, we believe, obtain valuable experience in examination technique from these tests.

The study groups which form such an important part of the program of the Society are now meeting regularly, being attended by 143 members. The group leaders and their subjects are as follows:

Cost Accounting	—G. Meredith Smith, C.A.
Budgeting	—G. S. B. Wickes, C.A.
Financial Statements	—G. G. Harris, C.A.
Investigations and Reorganizations	—T. Vincent Burke, C.A.

Legislation and Income Tax—A. W. Gilmour, C.A.

The method employed is one which makes these informal gatherings somewhat in the nature of discussion groups, the leader acting as a guide. Approach from a practical angle is aimed at in every subject as the groups are not intended to replace the University courses but rather to provide an opportunity for studying the working details. These groups use the Committee Room of the Senior Society for their meetings.

The membership now stands at 300 students and 160 Chartered Accountants, making a total of 460 members; the Committee would like to finish the year with an enrolment of 500 and are now taking steps to that end.

CORRESPONDENCE

The Editor,
The Students' Department.

Dear Sir:

In reply to "Subscriber," may I put forward the following?

(1) An auditor may properly accept appointment as an arbitrator, who gives a final decision after having arguments, or as a referee, who works out final results from the application of an agreed principle or technique. Personally, I think it a little invidious for an auditor to accept an appointment to decide a matter finally, without his hearing arguments and without the other parties having any agreement as to the basis on which he is to work.

(2) No one can say on what basis goodwill should have been figured, and no exception could be taken to setting it up at \$125,000, or any other figure, at a time when A was substantially the sole owner of the business.

(3) \$30,000! And you would find it very difficult to prove that I am wrong. As a final arbiter I need give no reasons, but it is a good round sum. B seems to have done pretty well out of this, but the prospects of the company are apparently excellent. A appears to have been generous, but will get good returns on his new shares. There is no need for the arbitrator to go through endless and entirely unreal calculations involving average profits, goodwill, total investment, etc.

Yours very truly,

X. Y. Z.

* * *

PROBLEMS AND SOLUTIONS

Solutions presented this month have been prepared by a member of the faculty of the School of Commerce, McGill University and represent his views and opinions. Discussion of solutions is cordially invited.

PROBLEM I.

THE SOCIETY OF CHARTERED ACCOUNTANTS OF THE PROVINCE OF QUEBEC.

FINAL EXAMINATIONS, MAY, 1937.

Accounting "A," Question 1.

On October 1st, 1936, the X Holding Company acquired \$160,000 of the 8% Preferred Stock of the Y Manufacturing Company. This preferred stock carried with it the right to the quarterly dividend for the three months to September 30th. The X Holding Company acquired this preferred stock in return for an issue to the original holders of 20,800 of its own common shares of no par value, issued at \$10 per share, of which \$9 per share was to be credited to capital and \$1 per share to "Distributable-Surplus."

Show the journal entries for the above in the books of the X Holding Company.

Note: The preferred dividend was paid in cash on October 7th.

THE CANADIAN CHARTERED ACCOUNTANT

SOLUTION

October 1st

Subscribers (Y Preferred Stockholders)	\$208,000	
To Capital: Common		\$187,200
20,800 shares of n.p.v. \$9. each as per Sub-		
scription Register page ...		
To Distributable Surplus		20,800
\$1 per share on 20,800 common shares of		
n.p.v.		
Shares taken up by Preferred Stock Holders of		
the Y Manufacturing Co. as per agreement		
dated ...		
Investments: X Co. 8% Preferred Shares	204,800	
\$160,000 8% Preferred Shares		
Dividends Receivable: X 8% Pref. Shares	3,200	
Three months dividend on \$160,000		
8% X Co. Preferred Shares.		
To Subscribers (Y Preferred Stockholders) ..		208,000
For shares and rights to interim preferred div-		
idend of X Manufacturing Company acquired		
under agreement dated ...		

PROBLEM II.

**THE SOCIETY OF CHARTERED ACCOUNTANTS OF
THE PROVINCE OF QUEBEC.**

FINAL EXAMINATIONS, MAY, 1937.

Accounting "A," Question 3.

The balance sheet of A and B in partnership is as follows in summarised form:—

Cash	\$ 10,000	Sundry Liabilities	\$ 15,000
Sundry Assets	95,000	General Contingency Re-	
		serve	20,000
		Capital A.....	\$40,000
		B.....	30,000
			<u>70,000</u>
	<u>\$105,000</u>		<u>\$105,000</u>

A and B share profits and losses equally.

Goodwill is fairly valued at \$12,000, but is not in the books. All assets and liabilities shown in the Balance Sheet are correctly valued.

They decide to admit C as a partner, their intention being that he shall have a one-fourth interest in the net assets, as they stand after his admission.

In order to effect this, they plan to ask C to pay in cash \$3,000 for a one-fourth share of the Goodwill, and also another \$30,000, the whole of which \$33,000 is to remain in the business. They plan to write into the books the \$3,000 of Goodwill being paid for in cash. After the admission of C the Goodwill is to be written out of the books. As between A and B profits and losses will be shared equally as before: C will take one-quarter and they will take the balance.

STUDENTS' DEPARTMENT

Before proceeding with the matter they ask your opinion as to whether their proposals will properly carry out their intentions equitably to C and themselves. They ask you what entries you would suggest to record the admission of C into the business and the necessary adjustments.

(a) Give these entries and the final balance sheet after the admission of C has been carried through as suggested by you.

(b) As compared with the partners' method for carrying out their intentions, what differences, if any, will your method make in the final result, after the adjustments have been made?

SOLUTION

(a) If the entries and payments are made as the partners suggest, the effect will be as follows:—

Amended Balance Sheet after writing in Goodwill and crediting General Contingency Reserve to Capital of A and B.

Cash	\$ 10,000	Sundry Liabilities	\$ 15,000
Sundry Assets	95,000	Capital A.....	\$51,500
Goodwill	3,000	B.....	41,500 98,000
	<u>\$108,000</u>		<u>\$108,000</u>

After admittance of C (their method):

Cash	\$ 43,000	Sundry Liabilities	\$ 15,000
Sundry Assets	95,000	Capital A.....	\$51,500
Goodwill	3,000	B.....	41,500
			93,000
		C.....	33,000 126,000
	<u>\$141,000</u>		<u>\$141,000</u>

After writing out of Goodwill:

Cash	\$ 43,000	Sundry Liabilities	\$ 15,000
Sundry Assets	95,000	Capital	
		A. ...	\$51,500
		Less . 1,125	\$50,375
		B. ...	41,500
		Less . 1,125	40,375
		C. ...	33,000
		Less . 750	32,250 123,000
	<u>\$138,000</u>		<u>\$138,000</u>

C's capital should equal $\frac{1}{4}$ of the Net Worth of \$30,750: obviously there is an inequity.

THE CANADIAN CHARTERED ACCOUNTANT

A and B should calculate the figure for C as follows:—

Goodwill (whole amount)	\$12,000	
A Capital		\$ 6,000
B Capital		6,000
General Contingency Reserve	20,000	
A Capital		10,000
B Capital		10,000
Capital Accounts are now A=	\$ 56,000	
B=	46,000	
	<u>102,000</u>	
1/3	34,000	
C should pay in cash	\$ 34,000	

The Balance Sheet after admittance of C would then be as follows:

Cash	\$ 44,000	Sundry Liabilities	\$ 15,000
Sundry Assets	95,000	Capital A.....	\$ 56,000
Goodwill	12,000	B.....	46,000
			<u>102,000</u>
		C.....	34,000
			<u>136,000</u>
	<u>\$151,000</u>		<u>\$151,000</u>

The Balance Sheet after writing out Goodwill would be:

Cash	\$ 44,000	Sundry Liabilities	\$ 15,000
Sundry Assets	95,000	Capital A.....	\$ 51,500
		B.....	41,500
		C.....	31,000
			<u>124,000</u>
	<u>\$139,000</u>		<u>\$139,000</u>

C's capital equals $\frac{1}{4}$ of the Net Worth shown on the Balance Sheet and he has a $\frac{1}{4}$ interest in the Goodwill.

(b) Under the revised scheme C pays in an extra \$1,000.

If Goodwill were written back into the books the partners' capital accounts would stand as follows: —

Partners' Method			Revised Method		
A	\$ 50,375		A	\$ 51,500	
(G)	4,500	\$ 54,875	(G)	4,500	\$56,000
B	40,375		B	41,500	
(G)	4,500	44,875	(G)	4,500	46,000
C	32,250		C	31,000	
(G)	3,000	35,250	(G)	3,000	34,000
	<u>\$135,000</u>			<u>\$136,000</u>	

STUDENTS' DEPARTMENT

Note: (G) = credit for Goodwill.

If the extra \$1,000 paid in by C under the revised method is deducted from his \$34,000, his capital stands at \$33,000.

If the partners' method had been followed and if a liquidation had ensued, and the assets had realized their valuations as per the balance sheet:—

A would have lost	\$1,125
B would have lost	1,125
C would have gained	2,250

PROBLEM III.

THE SOCIETY OF CHARTERED ACCOUNTANTS OF THE PROVINCE OF QUEBEC.

FINAL EXAMINATIONS, MAY, 1937.

Accounting "A," Question 4.

The following is the balance sheet in condensed form of the Excelsior Company, Ltd., at December 31st, 1936.

Sundry Current Assets \$ 350,000	Sundry Creditors and
Discount on Bonds..... 15,000	Bills and Notes Payable
Sundry Fixed Assets .. 900,000	5% Bonds
	Capital: Common Sub-
	scribed and Paid
	up
	General Con-
	tingency Re-
	serve
	Bond Conver-
	sion Reserve
	785,000
<u>\$1,265,000</u>	<u>\$1,265,000</u>

The bonds were issued five years ago at 95 for a period of 20 years, and are convertible from this date onwards at 105 into shares at par. Interest at 5% per annum is payable at June 30 and December 31st.

Discount on Bonds has been amortized according to the straight line method.

Two hundred thousand dollars, par value, of the bonds were handed in for conversion at December 31st, 1936.

(a) Draw up the journal entries necessary to complete the conversion of these bonds.

(b) Show the Balance Sheet of the company after completion of this conversion, all of which was carried through on January 1st.

(c) If no further bonds are redeemed during the first half of 1937 what transfers would you recommend at June 30th, 1937, regarding the accounts connected with the bonds?

SOLUTION

Part (a)

1937

Jany 1	Bonds Payable	\$200,000	
	Bond Conversion Reserve	10,000	
	To Subscribers: Common Shares		210,000
	Bonds turned in by holders for conversion, and credit to them of premium.		
	Subscribers: Common Shares	210,000	
	To Capital (Common Shares)		210,000
	Issue of 2,100 shares at par to those who surrendered bonds for conversion.		
	Bond Conversion Reserve	7,500	
	To Discount on Bonds		7,500
	To write off one-half of discount on account of bonds converted into shares.		

Part (b) Balance Sheet as at January 1st, 1937.

Sundry Current Assets. \$	350,000	Sundry Creditors and	
Discount on Bonds	7,500	Bills and Notes Payable	\$ 80,000
Sundry Fixed Assets ..	900,000	5% Bonds	200,000
		Capital: Common subscribed and paid up	\$810,000
		General Contingency Reserve	150,000
		Bond Conversion Reserve	17,500
			977,500
	<u>\$1,257,500</u>		<u>\$1,257,500</u>

Part (c)

1937

June 30	Bond Interest	\$250	
	To Discount on Bonds		\$250
	Amortization of discount for 6 months to date		
June 30	Bond Conversion Reserve	250	
	To Earned Surplus		250
	Transfer of reserve no longer required for Discount on Bonds.		

